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MONTEREY, CALIFORNIA

THESIS

**RUSSIA'S NATIONAL INTERESTS IN THE
TRANSCAUCASUS AND THE U.S. POLICY:
IMPLICATIONS FOR ARMENIAN NATIONAL SECURITY**

by

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March 2006

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POLICY: IMPLICATIONS FOR ARMENIAN NATIONAL SECURITY**

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ABSTRACT

The purpose of this thesis is to evaluate Armenian foreign policy toward the two major regional players—the United States and Russia. What are the United States’ and Russia’s security, economic, political and human rights interests in the South Caucasus? What are the regional security interdependencies and how are they influenced by these powers? What are the major determinants of Armenia’s foreign policy? In its pursuit of national interests, what should be Armenia’s foreign policy toward these powers? Answering these questions requires knowing Armenia’s geopolitical environment, security concerns and historical experience.

This thesis finds that Armenia, despite its limited natural resource base and geopolitical complexities, has managed its foreign relations and has addressed its national security concerns quite well. It has maintained good relations with both Russia and the United States, helping to reduce regional polarization and its own security dependence on either of the powers. The flexibility of its policy has allowed Armenia to adjust easily to global geopolitical and regional trends. Increasing U.S. involvement in the South Caucasus and the U.S.-Russian strategic partnership have opened up new avenues for Armenia to strengthen its security.

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I. THE SOUTH CAUCASUS: A REGION AFFECTED BY THE NEW WORLD ORDER?

The South Caucasus, also referred to as the Transcaucasus,¹ has long served as an arena for the competing interests of the dominant regional powers: Russia, Turkey and Iran. The region has great geo-strategic significance; its location between Central Asia and Europe, Southern Russia and the Middle East, and its role as a gateway to large oil and gas deposits of the Caspian basin, have made it one of the most “coveted pieces of territory in the World.”² The breakup of the Soviet Union and re-emergence of the three South Caucasian states—Armenia, Azerbaijan and Georgia—have changed the geopolitics of the region immensely. These states’ old fears of superpower domination have become refocused on the threats of regional powers, which enjoy greater freedom of action after Moscow’s abrupt departure.

A new struggle seems to be under way as regional states and outside powers jockey for economic influence and compete to fill the political vacuum created with the Soviet collapse. Some analysts and media reporters see in this maneuvering a ghost of the nineteenth century “Great Game.”³ Importantly, the form and quality, complexity and dynamism of the new Great Game make it distinctly different from the nineteenth century power competition.

The most powerful of the players in the new Game is the last global superpower—the United States. Its regional policies during the last decade have evolved from deference to Russia’s regional dominance and cautious activism toward increasing

¹ The term Transcaucasus is the literal translation of Russian word “Zakavkaz’ie,” which means the area beyond the Caucasus Mountain Range. This term, therefore, reflects Russo-centric perspective of the region. This thesis uses the terms “South Caucasus” and “Transcaucasus” interchangeably.

² Mustafa Aydin, “Regional Security Issues and Conflicts in the Caucasus and the Caspian Regions,” in *International Security Challenges in a Changing World*, ed. Kurt R. Spillmann and Joachim Krause (Bern: Peter Lang AG, 1999), 118.

³ The term “Great Game” was originally coined by Rudyard Kipling when referring to the confrontation between the Russian and British empires in Central Asia. See Gareth M. Winrow, “A New Great Game in the Transcaucasus?” in *The Euro-Asian World: A Period of Transition*, ed. Yelena Kalyuzhnova and Dov Lynch (New York: St. Martin’s Press, 2000), 45-46; “Armenia/Georgia: Great Game Upsets Bilateral Ties,” *Oxford Analytica*, 07 February 2002, 2. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 30 January 2006); Robert Kaplan, “The Great Game Isn’t Over,” *The Wall Street Journal*, (24 November 1999), A18. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 30 January 2006).

strategic engagement. Other rival powers pursuing a stake in the South Caucasus are Turkey, Iran, and Russia. One of the primary players in the Great Game, Russia, almost by default has been the major political-military player in the Transcaucasus.⁴ It has employed various tactics at its disposal to maintain and expand its influence on the region.

The differing interests of regional players have tended to increase the polarization of the region's politics, thus making the Southern Caucasian states' path to stability more difficult. Importantly, external influences on the Southern Caucasian states have been compounded by their internal vulnerabilities. All three countries are torn by unresolved ethnic conflicts that significantly hamper regional stability and development. The Southern Caucasian states share some common internal problems and external influences (Russia's reassertion of its economic and military power, a Turkish drive for geopolitical influence, increasing U.S. engagement in the region). However, each has developed a different strategy, and they pursue divergent foreign policy paths based on their threat perceptions and calculations of their national interests. The resulting alignments are contradictory and have the potential to upset regional security. Armenia has close security relations with Russia, Azerbaijan has aligned with Turkey, while Georgia mainly seeks American protection.

Which country Armenia should align with has long been a subject of controversy within Armenian politics and among analysts.⁵ The wave of velvet revolutions that swept through the former Soviet territory in 2003-2004 has once again intensified that debate. In a neighborhood where so many powerful regional players jockey for influence, betting on the wrong side might have potentially disastrous consequences for the state and

⁴ David E. Mark, "Eurasia Letter: Russia and the New Transcaucasus," *Foreign Policy*, No. 105 (Winter 1996-1997), 142.

⁵ See for example Naira Mamikonyan, "Inchn eh Khochndotum Kayunutyanyah" (What Hampers Stability?) *Aravot*, August 5, 2005. Available from <http://www.aravot.am/> (accessed 10 September 2005); Onnik Krikorian, "Revolution in Georgia: What Next for Armenia?" *HetqOnline, Investigative Journalists of Armenia*, 24 May 2004. Online. Available from <http://www.hetq.am/eng/politics/> (accessed 10 September 2005); "Armenia/Russia: Yerevan Plays Moscow Against West," *Oxford Analytica*, 02 June 2004, 2. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 30 January 2006); "Armenian Politics: Moving Closer to Russia," *The Economist Intelligence Unit ViewsWire*, New York, 11 July 2003. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 10 September 2005).

significant implications for regional stability and development. It is therefore important to understand Armenia's policies, security concerns, and interdependencies in the larger regional context, and this study focuses on these issues.

The purpose of this work is primarily to evaluate Armenian foreign policy toward the two major regional players—the United States and Russia. What are the United States' and Russia's security, economic, political and human rights interests in the South Caucasus? What are the regional security interdependencies and how are they influenced by these powers? What are the major determinants of Armenia's foreign policy? In its pursuit of national interests, what should be Armenia's foreign policy toward these powers? Answering these questions requires knowing Armenia's geopolitical environment, security concerns and historical experience.

This thesis finds that Armenia, despite its limited natural resource base and geopolitical complexities, has managed its foreign relations and has addressed its national security concerns quite well. It has maintained good relations with both Russia and the United States, helping to reduce regional polarization and its own security dependence on either of the powers. The flexibility of its policy has allowed Armenia to adjust easily to global geopolitical and regional trends. Increasing U.S. involvement in the South Caucasus and the U.S.-Russian strategic partnership have opened up new avenues for Armenia to strengthen its security. To support these conclusions, this investigation is organized into four major sections.

A. CHAPTER II

Chapter II lays out the methodology and theoretical framework based on the neorealist and neoliberal models of analysis. To explain and predict Armenia's foreign policy behavior, it discusses balance of power and balance of threat theories, and the sensitivity and vulnerability dimensions of neoliberal interdependence theory. This chapter also examines the value of focusing on the South Caucasus as a regional security system or complex, which is important in highlighting security interdependencies within the South Caucasian regional security subsystem and analyzing their influence on Armenia's alignment choices.

B. CHAPTER III

Chapter III examines the evolution of Russia's foreign policy towards the South Caucasus in order to identify Russia's long-term interests in the region. For Russia, military-strategic and economic interests are the highest priority. Russia views the Transcaucasian countries and the North Caucasus as part of the same security complex and accordingly has four major interests: 1) preventing foreign penetration into the region, 2) strengthening collective security frameworks and maintaining its military presence in the South Caucasus, 3) fighting threats of terrorism and radical Islam with the potential to spread and destabilize the entire Caucasus, 4) expanding economically and achieving control over key energy sectors to insure potential leverage over political developments of regional states. This chapter focuses also on the opportunities and threats created by Russia's policies for the security of Transcaucasian countries.

C. CHAPTER IV

The fourth chapter examines the evolution of U.S. foreign policy towards the South Caucasus in order to highlight the regional geopolitical trends and identify key U.S. interests in the region. For the United States, security, human rights and economic interests are the highest priority. The United States is interested in 1) enhancing regional security and stability within the prism of a global fight against terrorism, 2) lessening the dependence of regional states on Russia, 3) promoting development of East-West energy transport corridors, and 4) supporting democratic transition and growth of market economies. This chapter also discusses the implications of U.S. policies for the security of South Caucasian states, and examines the impact of U.S.-Russian relations on the regional security environment.

D. CHAPTER V

Chapter V explores Armenia's geopolitical realities and assesses the impact of its external security environment on the country's alignment choices. To highlight the regional security interdependencies that critically shape Armenia's strategic outlook, special consideration is given to Armenian-Turkish and Armenian-Azerbaijani relations and to the Nagorno-Karabakh conundrum. This chapter then discusses Armenia's foreign policy of "multidirectional complementarity" and provides a theoretical explanation for it, based on the major findings from analysis of Russian and U.S. regional policies.

II. THEORETICAL FRAMEWORK AND METHODOLOGY

A. INTRODUCTION

What are the linkages between systemic factors and Armenia's strategic environment? What are the security interdependencies among regional states and how do these interdependencies influence Armenia's behavior towards Russia and the United States? How have American and Russian interests in the region changed, and what opportunities and threats do they pose? How can Armenia extract greater benefits from regional players and what national strategies best serve its interests? In order to address these questions, it is necessary to understand the theoretical approaches to the behavior of a peculiar set of international actors—the small states.

The behavior of nation-states is affected by a number of factors that are commonly organized into three levels of analysis: the individual, the state, and the international system.⁶ The first and second level theories focus on individual decision-makers and domestic political processes, respectively, while the third level systemic theories focus on the structure of the international system. Each of those approaches is a composite of a number of models, which arguably complement each other and enhance strategists' ability to explain and predict the behavior of small states. Although the dynamics at the unit level and the perceptions of individual leaders are quite important for the analysis of small state behavior, this study focuses on systemic theoretical models, and, particularly, on neorealist and neoliberal approaches. Neorealists and neoliberals offer different operational assumptions for the behavior of small states, and these differences might have important policy consequences for Armenia.

B. NEOREALISM

The neorealist tradition describes the international system as an anarchic, decentralized environment in which the most typical activity is a state of war interrupted by periods of recuperation and preparation for the next war.⁷ The states as unitary, rational actors are primarily concerned with their own security and survival in the

⁶ Robert Jervis, "Perceptions and the Level of Analysis Problem," in *Perception and Misperception in International Politics* (Princeton, N.J.: Princeton University Press, 1976), 15-28.

⁷ Kenneth Waltz, *Theory of International Politics* (New York: McGraw-Hill, 1979), 88.

existing self-help international system. The system shapes the nature of the interactions between states, inducing them to subordinate economic gains to security interests so that they avoid situations of increased dependence and cooperative endeavors that might provide disproportionate gains to others.⁸ Using this logic, economic interdependence is undesirable, because the more the economic destinies of states are interlinked, the less are they individually able to dominate the outcomes.⁹ This is even more pronounced for small and weak states, whose dependent engagements come at an extremely high cost.¹⁰

Within the system, states are differently situated based on their power, which is estimated by the distribution of capabilities among them.¹¹ Small states have fewer capabilities than major states; the major states shape “the structure of international politics.”¹² This implies that weak and small states must choose appropriate strategies for their survival within the boundaries “set by inter-great-power relations.”¹³ Balancing and bandwagoning are the two major strategies that small states use to preserve themselves and to neutralize threats to their security.¹⁴

The critical question here is whether states generally respond to a rising power by balancing against it or bandwagoning with it. The answer to that question is important for defining national interests and for formulating a small state’s national strategy. Moreover, misperceiving the dominant tendency of balancing and bandwagoning is risky, because the two strategies imply very different policy prescriptions; a strategy appropriate for one situation will fail completely in another.

⁸ Waltz, *Theory of International Politics*, 105.

⁹ This type of thinking has come to be known as “an economic agenda for neo-realists” or geo-economics. See Michael Sheehan, *International Security: An Analytical Survey* (Boulder: Lynne Rienner Publishers, Inc., 2005), 72-73.

¹⁰ Ibid., 106.

¹¹ Ibid., 95-96.

¹² Ibid., 94.

¹³ Annete Baker Fox. Quoted in Raimo Vayrynen, “Small States: Persisting Despite Doubts,” in *The National Security of Small States in a Changing World*, ed. Efraim Inbar and Gabriel Sheffer (London: Frank Cass, 1997), 43.

¹⁴ Vayrynen, “Small States: Persisting Despite Doubts,” 46.

1. Balance of Power Theory

The balance of power theory is a political theory of international relations that focuses on explaining states' actions to maintain an existing distribution of power.¹⁵ In a self-help system, states wishing to survive and compensate for external disequilibrium are induced to play the balance of power game.¹⁶ Seeking protection from strong powers whose superior resources pose a threat to their survival, states mobilize the means available to them both internally (by intensifying economic and military buildups) and externally (by forming or enlarging their own alliances or weakening opposing alliances).¹⁷

According to Kenneth Waltz, states take as their end goals the maximization of security, not power.¹⁸ Excessive accumulation of power is self-defeating, as it triggers balancing against the rising power.¹⁹ Because states strive merely to maintain their positions in the system, once the status quo is disrupted they usually engage in balancing rather than bandwagoning behavior.²⁰ Waltz feels that small "secondary states" join the weaker side and will balance against the threatening major power, because they are safer on the opposite side and their moderate capabilities are more valued there.²¹

However, Waltz argues that small states have little impact on the international system; it is major states that define international politics. His balance of power theory thus revolves around the great powers, leaving small states on the sidelines. Waltz believes this does not pose a problem for the theory, because, in his words, international politics is "mostly about inequalities anyway."²²

¹⁵ Waltz, *Theory of International Politics*, 117.

¹⁶ Ibid., 121.

¹⁷ Ibid., 118.

¹⁸ Ibid., 126.

¹⁹ Glenn H. Snyder, "Mearsheimer's World—Offensive Realism and the Struggle for Security," *International Security*, Vol. 27, No. 1 (Summer 2002), 158.

²⁰ Waltz, *Theory of International Politics*, 126.

²¹ Ibid., 127.

²² Waltz, *Theory of International Politics*, 94.

2. Balance of Threat Theory

The balancing behavior of small states does not rest on power considerations alone. According to Stephen Walt, alliance formation is multilevel and multidimensional. Walt argues that alignment decisions are largely determined by weighing the perceptions of threats, which, in turn, are the product of four different sources: aggregate power, proximity, offensive capability, and offensive intentions.²³ He believes that states overwhelmingly tend to balance rather than bandwagon. They prefer alignment against potential threats and preservation of their freedom of action over subordination to a hegemon whose intentions they cannot be sure of.²⁴

Walt feels that small states have greater likelihood of bandwagoning because they are more vulnerable to pressure and because they add only negligible capabilities to either side.²⁵ Small states are especially sensitive to a proximate threatening power. When the offensive power of a threatening neighbor would permit rapid conquest, the small states may “see little hope in resisting.”²⁶ Furthermore, small states are likely to bandwagon when allies to balance with are simply unavailable or when they are not viable.²⁷ At the same time, Walt suggests that states are unlikely to bandwagon if the threatening power is perceived as “unalterably aggressive.”²⁸ He emphasizes that circumstances in which small states will bandwagon with the threatening power are rare, suggesting that such cases give priority to a short-term perspective.²⁹ This was famously presented, albeit in a slightly different context, in Machiavelli’s injunction: “A prince ought never to make common cause with one more powerful than himself, unless necessity forces him to it.”³⁰

²³ Stephen M. Walt, “Alliance Formation and the Balance of World Power,” *International Security*, Vol. 9, No. 4 (Spring 1985), 8-9.

²⁴ Ibid., 15.

²⁵ Ibid., 17.

²⁶ Ibid., 11.

²⁷ Ibid., 17-18.

²⁸ Ibid., 13.

²⁹ Ibid., 18.

³⁰ Niccolo Machiavelli, Quoted in Talukder Maniruzzaman, *The Security of States in the Third World* (Australia: Australian National University, 1982), 53.

Walt argues that all four sources of threat are important in considering a state's alliance choices, but "one cannot say a priori which sources of threat will be most important in any given case."³¹ He also believes that other factors of alliance formation, such as ideology, instruments of foreign aid and penetration, are weak determinants of alignment.³² Walt argues that these factors rarely create alliances because security considerations take precedence over them. He, however, feels that these factors can enhance the effectiveness of existing alliances.³³

Views on the general tendency of small states to balance or bandwagon appear even more divided. Mearsheimer, a leading offensive realist, argues that bandwagoning is extremely rare because it violates the basic principle that "states maximize their relative power."³⁴ Mearsheimer, however, admits that small states "may have no other choice" but to bandwagon.³⁵ Still others, like David Garnham, argue that there is no strong correlation between the size of the country and its propensity to balance or bandwagon.³⁶ Efraim Karsh argues that small states draw their security "from the reciprocal neutralization of the great powers" and that balance of power is "most desirable" for small states.³⁷ Talukder Maniruzzaman and Eric Labs believe that balancing against a threatening power is the best strategy for small states.³⁸ Still others caution against such generalizations and suggest taking into account the "constellation in which the small state functions."³⁹

This is a reminder of the importance of the regional security subsystems which the small states, as a result of their historical roots and geographic imperatives,

³¹ Walt, "Alliance Formation and the Balance of World Power," 13.

³² Ibid., 19-32.

³³ Ibid., 33.

³⁴ Glenn H. Snyder, "Mearsheimer's World—Offensive Realism and the Struggle for Security," 162-163.

³⁵ Ibid.

³⁶ Vayrynen, "Small States: Persisting Despite Doubts," 46.

³⁷ Efraim Karsh, *Neutrality and Small States* (London: Routledge, 1988), 98-101.

³⁸ Talukder Maniruzzaman, *The Security of States in the Third World*, 37-51. See also Ann-Sofie Dahl, "To Be or Not to Be Neutral: Swedish Security Strategy in the Post-Cold War Era," in *The National Security of Small States in a Changing World*, ed. Efraim Inbar and Gabriel Sheffer (London: Frank Cass, 1997), 182.

³⁹ Dahl, "To Be or Not to Be Neutral," 182.

participate in by default. Alignment with superpowers to balance against regional threats was a common practice during the Cold War.⁴⁰ With the end of bipolar system, the small states' fears of superpower domination were refocused on the dangers of regional powers which, in the current international order, experience greater freedom of action.⁴¹ In light of dormant and active regional enmities, one can therefore reasonably expect that regional threats will continue to influence the balancing or bandwagoning decisions of small states in the post-Cold War environment.

3. Regional Subsystems as a Level of Analysis

The regional level of security, although often neglected in international relations literature, is extremely important for understanding the security of small states and analyzing their alignment choices. Barry Buzan is often credited with placing due emphasis on the regional level. He suggests adding an intermediate level of analysis between the international system and the state, a level populated with "regional security complexes."⁴²

Security complexes represent a set of states "whose primary security concerns link together sufficiently closely" that the national security of each state cannot be understood apart from other states in the complex.⁴³ Buzan writes that the "fate" of those states "is that they have been locked into geographical proximity with each other."⁴⁴ Regional security complexes, therefore, are "an empirical phenomenon with historical and geopolitical roots."⁴⁵

⁴⁰ In 1971, India and Egypt, the leading nations of the Non-aligned movement, joined military pacts with the USSR to balance against regional threats. In 1970s twelve other neutralist countries aligned with the USSR. Many neutralist African countries had military pacts with France. See Maniruzzaman, *The Security of States in the Third World*, 36.

⁴¹ Efraim Inbar and Gabriel Sheffer, "Introduction," in *The National Security of Small States in a Changing World*, ed. Efraim Inbar and Gabriel Sheffer (London: Frank Cass, 1997), 2.

⁴² Barry Buzan, *People, States, and Fear: An Agenda for International Security Studies in the Post-Cold War Era* (Boulder: Lynne Rienner Publishers, 1991), 186-187.

⁴³ Ibid., 190.

⁴⁴ Ibid., 188.

⁴⁵ Ibid., 191. Geopolitics attempts to link the dynamics of interstate politics with spatial and geographical factors. As a theoretical approach it was discredited in 1930s through its association with Klaus Haushofer school and Hitler's strategic program. Although still influential, geopolitics is often criticized for its static nature and geographical determinism (Morgenthau's "fallacy of the single factor"). See Sheehan, *International Security: An Analytical Survey*, 21-23.

Buzan believes that the security interdependencies within the complex can be of varying strength and can reflect mutual trust or rivalry.⁴⁶ He believes that the security of small states in the complex is “bound up in the pattern of larger states,” but that by the impact of their alignments, minor states can become a source of threat to larger powers.⁴⁷ Buzan admits that the task of locating the boundaries of security complexes is a difficult one, but argues that it is better to have a disputed conception of boundaries than have no such conception at all.⁴⁸ The task of defining security complexes becomes even more complicated when one considers overlapping regional dynamics and the influence of external powers on security complexes.⁴⁹ Despite these problems, it appears that the regional level of analysis and the analytical instrument of a security complex are relevant and applicable to the South Caucasus.

With the dissolution of the Soviet Union, three small states—Armenia, Azerbaijan and Georgia—have regained their independence. Their interrelationships with one another and the three regional powers—Russia, Turkey and Iran—have come to significantly influence the whole Southern Caucasian security complex. Moreover, the autonomous regions within Georgia and Azerbaijan have also had a huge impact on the security complex, affecting the nature of the security interrelationships between Georgia and Russia as well as between Armenia and Azerbaijan, and between them and Turkey. Furthermore, an external major power, the United States, has increasingly become a focus of the Southern Caucasian security complex.

Ideally, an analysis of Armenia’s foreign policy behavior, its alignment decisions and its national strategies would consider the security interdependencies of all states in the security complex, including the United States, whose significance for the region is “readily comparable to that of the three regional powers.”⁵⁰ However, space and time limitations make this challenging task impractical. Therefore, this study focuses on

⁴⁶ Barry Buzan, *People, States, and Fear*, 192-194.

⁴⁷ Ibid., 195.

⁴⁸ Ibid., 200.

⁴⁹ Craig R. Nation, “Regional Studies and Global Strategy,” in *Guide to National Security Policy and Strategy*, ed. Boone Bartholomees, Jr. (US Army War College, 2004), 53-54. Online. Available at: <http://www.au.af.mil/au/awc/awcgate/army-usawc/strategy2004/> (accessed 19 January 2006).

⁵⁰ Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus* (Richmond: Curzon Press, 2001), 24-25.

security interrelationships between Armenia and other states of the complex, only tangentially analyzing the security interdependencies among the other states within the complex.

C. NEOLIBERALISM

The neoliberal school of thought provides an alternative framework for understanding the politics of interdependence in the modern world and behavior of small states with great powers. The neoliberal view also helps with analysis of the great power interactions and with highlighting the avenues for cooperation on issues that might have direct or indirect influence on small state security. The model shares some fundamental assumptions with the neorealist school. Both schools of thought consider rational states to be primary actors that operate in an anarchic, self-help environment; both highlight the role of military power in providing for security. Although neoliberals do not necessarily rule out the use of military power in extreme security situations, they believe security, in traditional parlance, is not at the top of state's agenda.⁵¹ Instead, they emphasize the low fungibility of military power and its high costs in an interdependent environment.⁵²

The neoliberal school accentuates the role of processes and international regimes⁵³ in fostering interstate cooperation. It views states as rational egoists among whom international cooperation develops because of absolute, not relative, gains. According to Keohane and Nye, cooperation among states is possible in highly iterative interactions where the existence of shared interests in dense "policy space" induces formation of international regimes.⁵⁴ Actors establish regimes because they anticipate certain beneficial effects: legal liability, low transaction costs for legitimate bargains, and

⁵¹ Robert O. Keohane and Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Second Edition (Toronto: Harper Collins Publishers, 1989), 8.

⁵² Ibid., 27-29.

⁵³ Keohane and Nye describe international regimes as "sets of governing arrangements that affect relationships of interdependence." See Keohane and Nye, *Power and Interdependence*, 19.

⁵⁴ Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1984), 79.

less uncertainty.⁵⁵ Importantly, the actors' egoistic self-interests, exogenous norms and principles, usage and custom, as well as knowledge, can all serve as causal variables for international regimes.⁵⁶

Neoliberals maintain that by linking issues in regimes, and the regimes in networks, an iterated, open-ended situation of Prisoners' Dilemma is created in which the pursuit of myopic self-interest becomes unattractive.⁵⁷ These linkages imply that disturbance of a regime will likely produce costly effects for other international regimes as well. Keohane argues that states in an interdependent world are also concerned with the production of "collective bads" and the costs of acquiring "bad reputations."⁵⁸ The rules of regimes, therefore, enforce norms of reciprocity and encourage "a convergence of expectations" that helps states to reach compromise.⁵⁹

Neoliberals contend that today's multidimensional social, economic and ecological interdependence affects world politics and state behavior.⁶⁰ All countries, whether big or small, have to tackle a growing number of problems, including drug trafficking, climate change, flows of refugees, terrorism, financial flows and other security issues requiring coordinated government actions. This implies that the former Cold War rivals, Russia (the main heir of the USSR) and the United States, might have some issues of mutual concern that can be linked through interwoven organizational regimes and networks.

In the post Cold War environment, the perception of Russia as an aggressive rival threatening the West with nuclear missiles has changed dramatically. Now, arguably, the West recognizes Russia as a partner willing to cooperate on a broad spectrum of economic and security issues ranging from energy partnership to disarmament to terrorism. For the small states, the implications for such West-East cooperative

⁵⁵ Robert Keohane, *After Hegemony*, 88-96.

⁵⁶ Stephen Krasner, "Structural Causes and Regime Consequences," *International Organization*, Vol. 36, No. 2 (Spring 1982), 194-204.

⁵⁷ Keohane, *After Hegemony*, 103. See also Robert Axelrod, *The Evolution of Cooperation* (Basic Books, 1984), 8-21.

⁵⁸ Keohane, *After Hegemony*, 104-105.

⁵⁹ Sheehan, *International Security*, 74.

⁶⁰ Keohane and Nye, *Power and Interdependence*, 4.

engagements are far reaching. Multiple Russo-American interactions and mutuality of interests open up avenues for the small states to simultaneously engage in cooperative, positive interactions with both powers, with the aim of complementing, not contradicting, their interests.

1. Sensitivity and Vulnerability

The neoliberal theory is also helpful for understanding how small states, given their interactions and interdependencies, can obtain power and influence over larger powers. Interdependence, neoliberals argue, is not necessarily a situation of evenly balanced mutual dependence, nor is it often a case of pure dependence. Instead it is usually a situation between those two extremes, an asymmetrical interdependence, which is the major source of power in the modern interdependent world.⁶¹ Keohane and Nye believe that interdependence “always involves costs,” because it restricts state autonomy.⁶² However, they argue, it is almost impossible to avoid interdependence, and futile to make a priori cost-benefit calculations for such relationships.⁶³

Keohane and Nye distinguish two dimensions of interdependence: sensitivity and vulnerability. They define sensitivity as the “degree of responsiveness” within an unchanged policy framework.⁶⁴ This type of interdependence can be economic or social, as well as political and can be reflected in demonstrations and political actions triggered by distress.⁶⁵ Sensitivity, however, reflects the immediate effects of external changes and its political consequences can be mitigated if the cost of interdependence can be altered through policy change.⁶⁶

The latter aspect reveals the vulnerability dimension of interdependence, which depends on “relative availability and costliness of alternatives” obtainable through policy alteration.⁶⁷ Vulnerability can be measured through calculation of the costs of making

⁶¹ Keohane and Nye, *Power and Interdependence*, 11.

⁶² Ibid., 9.

⁶³ Ibid., 9-10.

⁶⁴ Ibid., 12.

⁶⁵ Ibid., 12-13.

⁶⁶ Ibid., 13.

⁶⁷ Ibid.

effective policy adjustments over time.⁶⁸ Keohane and Nye believe that addressing long-term vulnerabilities requires domestic consensus, political will, and resource availability.⁶⁹ The most important source of power, therefore, comes from the vulnerability dimension of interdependence, although both sensitivity and vulnerability have huge political importance.⁷⁰ The political influence of sensitivity matters more if dissatisfied states cannot alter their policies relatively quickly.

Keohane and Nye emphasize that interdependencies can be manipulated, but they contend such actions may lead to counterstrategies, including the possibility of a military confrontation.⁷¹ Military force, however, is extremely costly to apply, and they believe such a strategy is an “act of desperation.”⁷² Obviously, this caution makes sense in a small state context only if the asymmetrical interdependence favors the small state and if the aggressor is the great power. However, this appears not to be the case with small states in the South Caucasus, since asymmetrical interdependence in many energy resources favors Russia, the great regional power.

For the purpose of this analysis, it seems that Armenia has the potential to exercise power resources which it can manipulate to achieve an advantage in other issues, linking them through organizational regimes and networks. At the same time, the other side of equation should be considered—the asymmetrical interdependencies that are favorable to major regional players. Exploring the dimensions of vulnerability and sensitivity for Armenia’s interdependent engagements will help to demarcate its space for political maneuver and to suggest strategies to minimize the chance of being manipulated. Here one should also consider that asymmetrical interdependencies are a measure of “potential power” that provide only “an approximation of initial bargaining advantages.”⁷³ The translation of potential power resources into power over outcomes

⁶⁸ Keohane and Nye, *Power and Interdependence*, 13.

⁶⁹ Ibid., 15.

⁷⁰ Ibid., 15-16.

⁷¹ Ibid., 16.

⁷² Ibid., 18.

⁷³ Ibid., 19.

depends on the bargaining process and such factors as coordination within the government, national cohesion and the ability to tolerate suffering.⁷⁴ One thing, however, is clear—“a lot is often lost” in the process of such translation.⁷⁵

To understand the interdependent relations between Armenia and major regional players, such as Russia and the United States, it is necessary to explore the regional policies of those players. The analysis of evolution of Russian and U.S. regional policies will help to identify their long-term interests in the South Caucasus and trends in their strategies. In turn, this will help to single out opportunities and threats that great-power policies pose to Armenia’s own national interests. The next chapter starts with an analysis of evolution of Russia’s policies towards the Transcaucasus.

⁷⁴ Keohane and Nye, *Power and Interdependence*, 13.

⁷⁵ Ibid., 11.

III. RUSSIA'S INTERESTS IN THE TRANSCAUCASUS

When the Soviet Union went into the “dustbin of history,”⁷⁶ the domestic affairs of the USSR suddenly became transformed into foreign policy questions for the Newly Independent States. Owing to its vast military resources and place in international organizations, Russia immediately took a more prominent position in the international system than any other Soviet successor country.⁷⁷ It remains a significant regional power with vital interests and a military, political and economic presence in the Caucasus ready to exert influence on the region's newly independent small states—Armenia, Azerbaijan and Georgia.⁷⁸

Immediately after the dissolution of the USSR, Russia's foreign policy in general, and its regional policy regarding the Transcaucasus in particular, was marked by “chaos and zigzags.”⁷⁹ Military and political leaders had differing understandings of what the Kremlin's policies towards the region should be; when they disagreed, they formed and executed their own policies.⁸⁰ Internal and external developments during Yeltsin's Presidency triggered radical changes in Russia's security policies throughout much of 1990s. Under Putin's leadership, Moscow's policies towards the region continued to change, with significant repercussions for the Transcaucasus.

Moscow's complex regional policies have become the subject of conflicting interpretations by policy analysts. For many pundits, Russia's overall strategy and its long-term interests in the Transcaucasus remain largely unclear and hard to predict.⁸¹

⁷⁶ William E. Odom, *The Collapse of the Soviet Military* (New Haven: Yale University Press, 1998), 374.

⁷⁷ Margot Light, “Post-Soviet Russian Foreign Policy: The First Decade,” in *Contemporary Russian Politics*, ed. Archie Brown (New York: Oxford University Press, 2001), 419.

⁷⁸ Edmund Herzig, *The New Caucasus: Armenia, Azerbaijan and Georgia* (London: The Royal Institute of International Affairs, 1999), 102.

⁷⁹ Sergey Karaganov, “Russia and the International Order,” in *What Russia Sees*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 74 (January 2005), 23.

⁸⁰ Cornell, *Small Nations and Great Powers*, 334.

⁸¹ Pavel Baev, “Russia's Policies in the North and South Caucasus,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December, 2003), 50. See also Sergey Markedonov, “Rossiya Ukhodit iz SNG-2,” (Russia leaves the CIS-2), *Polit.ru*, 10 January, 2006. Online. Available at: www.polit.ru (accessed 16 January 2006).

Indeed, its uncoordinated and contradictory actions in the Transcaucasus have come to resemble the pieces of a “jigsaw puzzle”⁸² that one might never be able to assemble properly. This chapter will nevertheless make an attempt to do so, exploring Moscow’s foreign policy fluctuations as well as its main interests in the Transcaucasus. Strategic and political factors that influence Russian national security decision making, as well as Russia’s leading documents on national security issues, will be analyzed for this purpose.

A. EVOLUTION OF RUSSIA’S FOREIGN POLICY TOWARDS THE TRANSCAUCASUS

1. 1991-1994

The immediate reaction to the dismantling of the USSR was a “state of confusion” in Moscow, which continued through the initial period of state building in 1991-1992.⁸³ It was the start of a search for a clear, widely accepted national identity, which Russia desperately lacked after the communist ideology of the USSR was discredited.⁸⁴ In fact, Russia had to undergo the process of redefining itself before it could formulate policies towards other Soviet successor states.⁸⁵ This meant that Moscow gave little priority to the Transcaucasus, essentially leaving it in the hands of the former Soviet military stationed in the region.⁸⁶

From mid-1992, the foreign policy debate in Russia was shaped by two competing schools of thought: the reformist “Euro-Atlanticist” and the more imperialistic “Neo-Eurasianist.”⁸⁷ The former, represented by the Minister of Foreign Affairs Andrei Kozyrev and supported by President Yeltsin, initially dominated the political scene. Under its influence, Russian national security policies acquired an “apparently pro-

⁸² Baev, “Russia’s Policies in the North and South Caucasus,” 41.

⁸³ Cornell, *Small Nations and Great Powers*, 334.

⁸⁴ Ronald Grigor Suny, “Russia’s Identity Crisis,” in *Contemporary Russian Politics*, ed. Archie Brown (New York: Oxford University Press, 2001), 364.

⁸⁵ Light, “Post-Soviet Russian Foreign Policy, 420.

⁸⁶ Joseph R. Masih and Robert O. Krikorian, *Armenia: At the Crossroads* (Amsterdam: Harwood Academic Publishers, 1999), 104. See also Thomas de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War* (New York: New York University Press, 2003), 202-205.

⁸⁷ Shireen T. Hunter, *The Transcaucasus in Transition: Nation Building and Conflict* (Washington DC: The Center for Strategic and International Studies, 1994), 148.

Western tilt.”⁸⁸ From the Euro-Atlanticist perspective, the Russian role in the “Near Abroad” was to be a civilizer in the context of a broad Western partnership that would keep Russia aligned with the Western club.⁸⁹

These policies, however, were soon criticized not only by communist and nationalist political circles, but also by many centrists and democrats, who saw the Euro-Atlanticist perspective as lacking a sense of national interest.⁹⁰ Many of the critics believed that Russian civilization was superior to Western materialistic culture. They disputed the view of Russia as a “normal power” and maintained that Moscow must keep an independent foreign policy direction.⁹¹ They also believed that Russia should focus on creating a “belt of friendly countries” from the Commonwealth of Independent States (CIS) to serve as a “buffer zone.”⁹² They argued that the security of this zone should be ensured by stabilizing the internal situation of those states and maintaining control over their internal and external borders.⁹³

With time, as the government failed to create “a new Russia” integrated into the civilized West, popular support gradually shifted toward conservative, Neo-Eurasianist worldviews, which were already popular among the military leadership, the intelligence community and the parliament.⁹⁴ It is important to note that the amended Soviet-era constitution of Russian Soviet Federative Socialist Republic (RSFSR) did not provide a clear separation of power between the legislative and the executive, which fragmented

⁸⁸ Jonathan Valdez, “The Near Abroad, the West, and National Identity in Russian Foreign Policy,” in *The Making of Foreign Policy in Russia and the New States of Eurasia*, ed. Adeed Dawisha and Karen Dawisha (New York: M. E. Sharpe, 1995), 84.

⁸⁹ Hunter, *The Transcaucasus in Transition*, 149.

⁹⁰ Stuart D. Goldman, *CRS Issue Brief for Congress: Russia* (Washington DC: Library of Congress), 06 January 2006, IB92089, 8.

⁹¹ Hunter, *The Transcaucasus in Transition*, 150.

⁹² Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 94.

⁹³ Hunter, *The Transcaucasus in Transition*, 150-151.

⁹⁴ Cornell, *Small Nations and Great Powers*, 338.

national security and foreign policy decision making.⁹⁵ This problem prepared the ground for political battles that beset Moscow in 1993 and “permeated all aspects of policymaking” there.⁹⁶

In order to advance their policies in Moscow, the “hard liners” contributed to the intensification of conflicts in the periphery.⁹⁷ For instance, when an armed conflict erupted between Georgia and its autonomous republic Abkhazia in 1992, influential Russian political circles lend their support for the Abkhazians.⁹⁸ Moreover, the decomposition of the Soviet Armed Forces during this period resulted in military leaders and civilian personnel serving their own interests in the ethnic conflicts in the Transcaucasus.⁹⁹ Russian foreign policy in the region became not only decentralized, but also somewhat “privatized.” As a result, it appeared increasingly inconsistent and confused.¹⁰⁰

In 1992 and 1993, a number of domestic and external factors emerged that led Yeltsin’s government towards the assertive Neo-Eurasianist perspective and the adoption of Russia’s Monroe Doctrine. As 1992 progressed, the power struggle between Yeltsin and the conservative parliament crystallized into a rivalry, intensifying Yeltsin’s move towards a revisionist policy that would attract the military to his camp and thus deprive his opponents of their powerful supporters.¹⁰¹ At the same time, Russia’s search for a new identity independently facilitated the transformation of Euro-Atlanticists.¹⁰² Foreign policy change was also triggered by external factors, like the intensification of regional conflicts in Russia’s southern belt, as well as by growing activism by regional countries

⁹⁵ Light, “Post-Soviet Russian Foreign Policy: The First Decade,” 420.

⁹⁶ Ibid, 420-421.

⁹⁷ Hunter, *The Transcaucasus in Transition*, 153.

⁹⁸ Dmitri V. Trenin, Aleksei V. Malashko and Anatol Lieven, *Russia’s Restless Frontier: The Chechnya Factor in Post-Soviet Russia* (Washington DC: Brookings Institution Press, 2004), 9.

⁹⁹ Dmitri Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” in *Contested Borders in the Caucasus*, ed. Bruno Coppieters (Brussels: Vubpress, 1996), 98.

¹⁰⁰ Light, “Post-Soviet Russian Foreign Policy: The First Decade,” 421.

¹⁰¹ Cornell, *Small Nations and Great Powers*, 339-340.

¹⁰² Hunter, *The Transcaucasus in Transition*, 154.

with their own “version of Eurasianism.”¹⁰³ In the Transcaucasus, the most notable was Turkey, which was supported by the United States and North Atlantic Treaty Organization (NATO) in its pursuit of regional leadership.¹⁰⁴

The end of “romantic Euro-Atlanticism” was reflected in Kremlin’s rhetoric. Foreign Minister Kozyrev emphasized that “Russia cannot agree to a subordinate global role.”¹⁰⁵ He went so far as to accuse NATO of pursuing objectives that were “essentially unchanged” from the Cold War era.¹⁰⁶ The Yeltsin-Kozyrev “updated” strategy unambiguously emphasized Russia’s desire for reintegration within the CIS.¹⁰⁷ Yeltsin spoke of a need for international organizations to “grant Russia special powers as a guarantor of peace and stability in the region of the former union.”¹⁰⁸ The two leading security documents of the period, the Russian Foreign Policy Concept and the Military Doctrine of 1993, bore the stamp of this shift in policies. The Military Doctrine, in particular, envisaged the possibility of stationing troops outside Russian territory to ensure a ceasefire across the former Soviet territory.¹⁰⁹

During this period a consensus developed on Russia’s policies towards the Transcaucasus. The policymakers recognized security linkages between the North and South Caucasus—instability and conflict in the Transcaucasus had the potential to destabilize Russian North Caucasus.¹¹⁰ Moreover, they saw the Transcaucasus as a “buffer zone” between the North Caucasus and the Islamic world to the south.¹¹¹ The strategists also agreed that the region might serve either as the “bridge or the barrier for

¹⁰³ Hunter, *The Transcaucasus in Transition*, 153.

¹⁰⁴ Olga Oliker, “Conflict in Central Asia and South Caucasus: Implications of Foreign Interests and Involvement,” in *Faultlines of Conflict in Central Asia and the Caucasus: Implications for the US Army* (Santa Monica: RAND, 2003), 203.

¹⁰⁵ Hunter, *The Transcaucasus in Transition*, 156.

¹⁰⁶ Quoted in Jacob W. Kipp, “War Scare in the Caucasus: Redefining the Threat and the War on Terrorism,” in *Russian Military Reform*, ed. Anne C. Aldis and Roger N. McDermott (London: Frank Cass, 2003), 243.

¹⁰⁷ Suny, “Russia’s Identity Crisis,” 365.

¹⁰⁸ Quoted in de Waal, *Black Garden*, 232.

¹⁰⁹ Marcel de Haas, “The Development of Russia’s Security Policy,” in *Russian Military Reform*, ed. Anne C. Aldis and Roger N. McDermott (London: Frank Cass, 2003), 8-14.

¹¹⁰ Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 94.

¹¹¹ Cornell, *Small Nations and Great Powers*, 341.

Russia's relations with the Middle East." If controlled by Moscow, the region could permit effective projection of Russian influence to the Middle East.¹¹² The Transcaucasus came to be viewed as an important energy and transport corridor connecting the West to the energy-rich Central Asian part of the "Southern Tier,"¹¹³ bypassing Russia. The loss of the Transcaucasus to external influence, therefore, was seen as a prelude to the loss of control over the entire Southern Tier, which in geo-strategic and geo-economic terms is of vital importance to Moscow. Therefore, it is not surprising that Russia came to view its competition with foreign influences in the Transcaucasus along the lines of a zero-sum game.¹¹⁴

From this perspective, Turkish activism and the revival of pan-Turkish ideas carried serious implications for the security architecture of the whole Southern Tier.¹¹⁵ Because of Russia's Turkic populations, Turkish opportunism was also threatening to destabilize Russia itself.¹¹⁶ Importantly, Turkey's unconcealed hostility towards its Transcaucasian neighbor Armenia became the source of a convergence of Russian and Armenian threat perceptions. Henry Hale notes that the former Soviet countries which face a third-party threat see Russia as potentially important ally. He writes that "the strategy of any given state . . . depends on whether this third-party threat is more serious than that posed by Russia itself and whether the state sees Russia as genuinely interested in resisting this threat."¹¹⁷

¹¹² Cornell, *Small Nations and Great Powers*, 341-342.

¹¹³ The region includes Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. See Scott A. Jones, "Introduction," in *Crossroads and Conflict: Security and Foreign Policy in the Caucasus and Central Asia*, ed. Gary Bertsch, Cassidy Craft, Scott A. Jones and Michael Beck (London: Routledge, 2000), 1.

¹¹⁴ Dov Lynch, "Struggling with an Indispensable Partner," in *What Russia Sees*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 74 (January 2005), 135.

¹¹⁵ In the context of this discussion the term "pan-Turkism" refers to Ankara's foreign policy aimed at creating a "gigantic Turkish world," "a Turkic universe" from the "Adriatic Sea to the Wall of China" based on kinship ties among Turkic populations. See Cornell, *Small Nations and Great Powers*, 289-290. Irina D. Zviagelskaya, "Central Asia and Transcaucasia: New Geopolitics," in *Central Asia and Transcaucasia: Ethnicity and Conflict*, ed. Vitaly Naumkin (Westport: Greenwood Press, 1994), 137-139.

¹¹⁶ Hunter, *The Transcaucasus in Transition*, 153. See also Aydin, "Regional Security Issues and Conflicts in the Caucasus and the Caspian Regions," 130.

¹¹⁷ Henry E. Hale, "Independence and Integration in the Caspian Basin," *SAIS Review*, Vol. 19. No. 1. (1999), 166-167.

During the late Soviet period, Russia had “relatively openly” supported Azerbaijan in the conflict over Nagorno (or Mountainous) Karabakh, arguably to preserve the Soviet Union from disintegration.¹¹⁸ Until August 1991, the Azerbaijani leadership remained firmly attached to Soviet camp, while the leadership in Armenia had effectively distanced themselves from the USSR. Yerevan, however, soon realized that further worsening of relations with Russia would leave Armenia on its own vis-à-vis Turkey, which is an ardent supporter of Azerbaijan in the Nagorno-Karabakh conflict and has a long history of hostility towards Armenia.¹¹⁹ This third-party threat was perceived to be much more serious because there was a “real threat of Turkish military action in response to Armenia’s war with Azerbaijan.”¹²⁰

The weighing of threats forced Yerevan to move to counterbalance the Turkish threat and to seek a new security structure that would ensure the country’s survival and recreate the security environment that had existed on its border during the Soviet era.¹²¹ This could be achieved only through alignment with Russia, which itself had a genuine interest in resisting Turkish activism in the region. Armenia moved to normalize its relations with Russia and in May 1992 became the only Southern Caucasian country to willingly join the CIS Collective Security Treaty.¹²² During the same year, agreements were signed to allow the stationing of Russian troops and guards to patrol the borders with non-CIS countries.¹²³ As a result, Russia came closer to its own regional objective of filling the post-Cold War regional “security vacuum” with its military presence.¹²⁴ Russia, however, realized that effective control over the region required a more activist approach towards two other Transcaucasian states—Azerbaijan and Georgia.

¹¹⁸ In April-July 1991, the Soviet Army (the 23rd Division of the 4th Army) joined Azerbaijani Interior Ministry troops (OMON) and groups of Azerbaijani villagers in driving out of Azerbaijan the Armenian population of Khanlar and Shaumyan regions (the only population left outside Nagorno-Karabakh). An armed assault was also carried out on six Armenian-populated villages of the Shushi region and 14 villages of the Hadrut region of Karabakh. The “Operation Ring,” as it was called, led to murders and maiming of dozens of Armenian villagers; thousands of people were deported. See de Waal, *Black Garden*, 113-124; Cornell, *Small Nations and Great Powers*, 353.

¹¹⁹ Cornell, *Small Nations and Great Powers*, 354.

¹²⁰ Hale, “Independence and Integration in the Caspian Basin,” 169.

¹²¹ Masih and Krikorian, *Armenia: At the Crossroads*, 102.

¹²² Cornell, *Small Nations and Great Powers*, 354.

¹²³ Masih and Krikorian, *Armenia: At the Crossroads*, 105.

¹²⁴ Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 97.

During 1993-1994, the two major components of Russia's new foreign policy—prioritization of the near abroad and maintenance of regional predominance—were translated into a strategy of “aggressive reintegration”¹²⁵ of the Transcaucasus into the CIS.¹²⁶ This phase had its distinctive features: reintroducing or maintaining Russian troops in the region under the rubric of peacekeeping or through agreements on basing rights; keeping the governments of the Southern Caucasian countries weak and susceptible to manipulation; playing regional powers like Iran and Turkey against each other to maximize Moscow's influence; forming a “leapfrog alliance”¹²⁷ with Iran as an additional safeguard for Russian security; reasserting Russia's informational powers and cultural influence; integrating all the Transcaucasian states into the CIS security structure by “encouraging” them to join the Collective Security Treaty; and constraining the ties of Southern Caucasian states with their neighbors and other regional players.¹²⁸ This last approach was motivated by the need to prevent the formation of regional alliances that might exclude and isolate Russia.¹²⁹ The Kremlin's new proactive approach was soon confirmed as quite effective.

Indeed, the year 1993 was marked by “improvement” in relations between Russia and the two Transcaucasian countries, Azerbaijan and Georgia, that had previously shown “rebellious tendencies”¹³⁰ in regard to their former patron's domination. It has been suggested that the overthrow of Azerbaijani nationalist, anti-Russian President Elchibey by rebellious army commander Suret Husseinov in 1993 occurred at Moscow's prompting.¹³¹ The subsequent improvement in Russian-Azeri ties under the leadership of Heidar Aliiev was followed by cancellation of a series of oil contracts that Elchibey had

¹²⁵ Cornell, *Small Nations and Great Powers*, 341.

¹²⁶ Hunter, *The Transcaucasus in Transition*, 155.

¹²⁷ Ian Bremer and Alyson Bailes, “Sub-Regionalism in the Newly Independent States,” *International Affairs*, Vol. 74, No. 1 (January 1998), 138.

¹²⁸ Hunter, *The Transcaucasus in Transition*, 155-156.

¹²⁹ Margot Light, “Russia and Transcaucasia,” in *Transcaucasian Boundaries*, ed. John F. N. Wright, Suzanne Goldenberg and Richard Schoefield (New York: St. Martin's Press, 1996), 49.

¹³⁰ Sheffer, “The Security of Small Ethnic States: A Counter Neo-Realist Argument,” 27.

¹³¹ Winrow, “A New Great Game in the Transcaucasus?,” 51.

signed with Western companies, and, later in 1993, by Azerbaijan joining the CIS.¹³² In the same year the collapse of the Georgian Army in Abkhazia, along with armed conflict between the followers of overthrown nationalist President Gamsakhurdia and supporters of elected President Shevardnadze compelled the latter to turn to Moscow for help. Moscow's support arrived with significant strings attached to it. Shevardnadze was compelled to join the CIS and allow Russian military bases in Georgian territory.¹³³ As a result of those events, Russia acquired a dominant position in the Transcaucasus. The Russian victory, however, turned to be short-lived. What followed is often described as a "gradual retreat" from the Transcaucasus.¹³⁴

2. 1994-1999

Despite Russia's willingness to keep Georgia and Azerbaijan under its control, it appeared that Moscow only partly achieved that objective. Russia's policies towards the Transcaucasus remained "reactive and ad hoc."¹³⁵ The war in the North Caucasus, the failure to establish order domestically, and Russia's deteriorating economic and military might severely limited Moscow's "ability to deliver on its promises and threats."¹³⁶ Moscow was unable to stop the anti-Russian rhetoric and increasingly pro-Western tilt in Azerbaijan and Georgia. As time went on, the gap between Russia's intentions and capabilities continued to grow. The tools left at Kremlin's disposal were "obstructionism" (a blunt instrument for long-term maintenance of influence,¹³⁷) and covert operations.

¹³² Aiaz Mutalibov, Azerbaijan's first president had entered the CIS without parliament's consent and Elchibey subsequently withdrew it. See Suzanne Goldenberg, *Pride of Small Nations: The Caucasus and Post-Soviet Disorder* (New Jersey: Zed Books Ltd., 1994), 60. See also de Waal, *Black Garden*, 214, 226, and Hunter, *The Transcaucasus in Transition*, 156.

¹³³ Mark, "Eurasia Letter: Russia and the New Transcaucasus," 149-151. See also Fred Hiatt, "Russia Seeks Bases in Former Republics," *The Washington Post*, 03 February 1994, 21. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006). Nodari Simonia, "Priorities of Russia's Foreign Policy and the Way it Works," in *The Making of Foreign Policy in Russia and the New States of Eurasia*, ed. Adeed Dawisha and Karen Dawisha (New York: M. E. Sharpe, 1995), 29-31.

¹³⁴ Cornell, *Small Nations and Great Powers*, 341.

¹³⁵ "Russia: Transcaucasian Tensions," *Oxford Analytica*, 16 March 1998, 2. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006). See also Pavel Baev, "Russia's Policies in the North and South Caucasus," 50.

¹³⁶ Olikier, "Conflict in Central Asia and South Caucasus," 195.

¹³⁷ "Russia: Transcaucasian Tensions," *Oxford Analytica*, 16 March 1998, 2.

This period was marked by failed coups against the leaders of Azerbaijan and Georgia.¹³⁸ It has been suggested that Russia tacitly supported the coup-makers.¹³⁹

In 1997, both countries joined the GUAM (Georgia, Ukraine, Azerbaijan and Moldova) group in opposition to Russian interests and with a goal of “strengthening their independence.”¹⁴⁰ Despite Russian obstructionism, Georgia and Azerbaijan also boosted their cooperation with Turkey and the U.S. on the deployment of pipelines to bring Azerbaijani oil to Turkey through Georgia, bypassing Russian territory.¹⁴¹ Azerbaijan opened a discussion on stationing American and Turkish bases on its soil and Georgia declared its aspiration for NATO membership.¹⁴² Interestingly, during this period, the increasing interactions of the Southern Caucasian states with the outside world made it more difficult for Russia to intervene aggressively and helped those countries to lessen their dependency on Russia.¹⁴³

In 1999, Azerbaijan and Georgia decided not to extend their membership in the Collective Security Treaty (CST). Azerbaijan stated that the CST was not effective for ensuring its security and territorial integrity. Shevardnadze announced that his country refused to extend its participation in the CST “because it only exists on paper and there are no real practical results whatsoever.”¹⁴⁴ By that he meant Russia’s failure to fulfill its obligations under the Treaty, including the lack of progress in resolving the Abkhazian

¹³⁸ Ariel Cohen, “Russia Won’t be Left Out,” *The Washington Post*, 08 March 1998, 3. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 30 January 2006).

¹³⁹ Cornell, *Small Nations and Great Powers*, 358.

¹⁴⁰ Uzbekistan joined the organization in 1999 and officially withdrew from it in March 2006. GUUAM, “The GUUAM Group: History and Principles,” November 2000. 1. Online. Available from <http://www.guam.org/general/browse.html> (accessed 31 January 2006). See also “VUUAM-ah Pashtonapes Veratsvets VUAM-ih” (GUUAM Officially Became GUAM). *RFE/RL*, 10 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 10 March 2006).

¹⁴¹ Cornell, *Small Nations and Great Powers*, 365.

¹⁴² Trenin, Malashko and Lieven, *Russia’s Restless Frontier*, 170.

¹⁴³ Paul Kubicek, “Russian Foreign Policy and the West,” *Political Science Quarterly*, Vol. 114, No. 4 (Winter 1999-2000), 564-565.

¹⁴⁴ J. H. Saat, *The Collective Security Treaty Organization*, United Kingdom Defence Academy, Conflict Studies Research Centre, Central Asian Series document 05/09, February 2005, 3. Online. Available from <http://www.da.mod.uk/CSRC/documents/CentralAsia/05%2809%29-JHS.pdf> (accessed 30 January 2006).

conflict and little or no help in modernizing the Georgian Army.¹⁴⁵ Armenia, in contrast, extended its participation in the Treaty, since the alliance with Russia continued to serve its security requirements.¹⁴⁶

3. Russia's Current Policy

It is important to note that Russian policy towards the Transcaucasus is guided not only by regional and domestic considerations, but also by its general foreign policy stance. Some analysts maintain that Moscow's larger foreign policy concept underwent a radical change following NATO's intervention in the Kosovo conflict and its post-Cold War first enlargement in 1999.¹⁴⁷ Changes in perceptions of threats are reflected in Russia's leading security documents, which were ratified in 2000 by President Putin.¹⁴⁸

The National Security Concept states that some countries "have stepped up their efforts to weaken Russia's positions in the political, economic, military and other spheres."¹⁴⁹ It emphasizes Russia's support for a multi-polar world, which implies that US hegemony is seen as a threat to progress, stability and peace.¹⁵⁰ Among Russia's national interests in the international sphere the Concept stresses political, military and economic integration within the CIS as a road to reviving its status as a great power.¹⁵¹ The subordinate documents, the Military Doctrine and the Foreign Policy Concept,

¹⁴⁵ Vladimir Batyuk, "Russia and the CIS: Does the CIS Exist Any More?" in *Moscow, The Regions and Russia's Foreign Policy*. United Kingdom Defence Academy, Conflict Studies Research Centre, Russian Series document E 103, September 2005, 32-33. Online. Available from http://www.da.mod.uk/CSRC/documents/Russian/E103/E103_chap5/ (accessed 30 January 2006).

¹⁴⁶ "Russia: Transcaucasian Tensions," *Oxford Analytica*, 3.

¹⁴⁷ de Haas, "The Development of Russia's Security Policy," 7.

¹⁴⁸ Under the current Constitution of the Russian Federation, which was adopted in 1993, the president is responsible for national security and foreign policy making. See de Haas, 6.

¹⁴⁹ President of the Russian Federation, *National Security Concept of the Russian Federation*. Approved by Presidential Decree No. 24. 10 January 2000, 2. Online. Available from <http://fas.org/nuke/guide/russia/doctrine/gazeta012400.htm> (accessed 15 December 2005).

¹⁵⁰ William E. Odom, "The Military and the State: Contemporary Russia in Historical Perspective" in *The Military History of the Soviet Union*, ed. Robin Higham and Frederick W. Kagan (New York: Palgrave, 2002), 308.

¹⁵¹ "National Security Concept of the Russian Federation." 3.

similarly reflect an assertive attitude on a global level and towards the CIS.¹⁵² The Military Doctrine introduces a first-use of nuclear weapons policy, which in some pragmatic scenarios of conventional confrontation in the Transcaucasus could mean the option of using tactical nuclear weapons against Turkey, Russia's regional rival.¹⁵³

The Russian Foreign Policy Concept of 2000 manifests a seemingly ambiguous, dualistic approach. On the one hand it accepted Russia's internal weakness and the need to integrate into the international system, which is dominated by the West. On the other hand, it emphasized the objective of reviving Russia's great power status by strengthening ties within the CIS, which has the potential for creating confrontation with the West.¹⁵⁴ Because of this, some analysts were quick to imply a swing of Russian policies under President Putin's leadership toward "imperial assertiveness" and confrontation with the West.¹⁵⁵ So lasting was the image of Yeltsin's Russia as a "paper tiger" ¹⁵⁶ that other analysts viewed those policy "changes" as merely a rhetorical device intended to mask Russia's weakness and its continuous disengagement and retreat from the CIS.¹⁵⁷ The nexus between the seeming dualism, however, can be found in the increasingly geo-economic focus of Russian foreign policy.¹⁵⁸

The Russian leadership today well understands that revitalization of their country's economy cannot be achieved without integration into the global economy. It appears that President Putin has made a "strategic decision" to achieve that objective through cooperation with the West.¹⁵⁹ Importantly, the leadership's strategic thinking has been reoriented towards building a modern great power on strong economic

¹⁵² Ministry of Foreign Affairs of the Russian Federation, *The Foreign Policy Concept of the Russian Federation*. Approved by the President of the Russian Federation, V. Putin, 28 June 2000. Online. Available from <http://fas.org/nuke/guide/russia/doctrine/econcept.htm> (accessed 30 January 2006). See also Ministry of Defense of the Russian Federation, *Voyennaya Doctrina Rossiyskoi Federatsii* (Military Doctrine of the Russian Federation). Approved by Presidential Decree No. 706. 21 April 2000, 2. Online. Available from http://www.scrf.gov.ru/documents/decrees/2000_706_1.shtml (accessed 30 January 2006).

¹⁵³ Baev, "Russia's Policies in the North and South Caucasus," 49.

¹⁵⁴ de Haas, "The Development of Russia's Security Policy," 10.

¹⁵⁵ Odom, "The Military and the State: Contemporary Russia in Historical Perspective," 306- 315.

¹⁵⁶ Kubicek, "Russian Foreign Policy and the West," 568.

¹⁵⁷ Cornell, *Small Nations and Great Powers*, 352-365.

¹⁵⁸ Bobo Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy* (Malden: Blackwell Publishing, 2003), 51-71.

¹⁵⁹ Goldman, *CRS Issue Brief for Congress: Russia*, 9.

foundations—an “independent Moscow-led power center in Eurasia”—through greater use of Russia’s comparative advantages.¹⁶⁰ President Putin has repeatedly emphasized the role of economic power in modern international politics.¹⁶¹ In 2003, during his annual televised address to the nation, he said, “[T]here is a tough, competitive battle going on in the world. As [sic] different from the past, this battle has moved from the realm of military conflict to economic competition.”¹⁶²

It is well known that Russia possesses abundant energy resources and that today many Western and CIS countries depend heavily on them. From the neoliberal perspective, given global trends of increasing energy consumption and the potential power of asymmetrical interdependencies, Russia’s focus on economic instruments of power is quite likely to give the Kremlin an important strategic advantage in international political battles. Increased focus on geo-economics, however, does not mean abandoning traditional geopolitical thinking.¹⁶³ Instead, twenty-first century Moscow’s Realpolitik combines and interconnects geopolitics and geo-economics.¹⁶⁴ The search for geo-economic opportunities began in the late 1990s, but it is under Putin’s leadership that the management of its economic agenda became the central point of Russia’s foreign policy towards the CIS and the international community at large.¹⁶⁵

Dmitri Trenin, a senior analyst at Moscow’s Carnegie Center, has named Moscow’s Realpolitik approach towards former Soviet states “Operation CIS.” It rests on two main pillars: the strengthening of collective security frameworks, and the transformation of Russia into an economic magnet for the former Soviet states through

¹⁶⁰ Dmitri Trenin, “Russia’s Foreign and Security Policy under Putin,” Carnegie Moscow Center: Carnegie Endowment for Peace, 24 June 2005, 2. Online. Available from <http://www.carnegie.ru/en/pubs/media/72804.htm> (accessed 30 January 2006).

¹⁶¹ de Haas, “The Development of Russia’s Security Policy,” 10.

¹⁶² Jeronim Perovic, “From Disengagement to Active Economic Competition: Russia’s Return to the South Caucasus and Central Asia,” *Demokratizatsiya*. Vol. 13. No. 1. (Washington: Winter 2005), 3. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006).

¹⁶³ Lo, *Vladimir Putin and the Evolution of Russian Foreign Policy*, 69-70.

¹⁶⁴ Dmitri Trenin, “Realpolitik Moskvi,” (Moscow’s Realpolitik) *Nezavisimaya Gazeta*. 09 February 2004, 1. Online. Available from <http://www.ng.ru/> (accessed 16 December 2005).

¹⁶⁵ Roy Allison, “Russia and the New States of Eurasia,” in *Contemporary Russian Politics*, ed. Archie Brown (New York: Oxford University Press, 2001), 444.

expansion of Russian investment.¹⁶⁶ At the same time, the restoration of a new model of the Soviet Union is firmly rejected, as the costs of maintaining such an empire would be extremely high.¹⁶⁷ As Putin noted, “Those who want to restore the Soviet Union . . . have no brains.”¹⁶⁸

Russia’s “new strategy” stipulates multi-layer integration processes within the CIS through such organizations as the Eurasian Economic Community (EurAsEC), the Single Economic Space (SES), the Collective Security Treaty Organization (CSTO), and the Shanghai Cooperation Organization (SCO).¹⁶⁹ Along with these more manageable, non-CIS-wide programs, which involve “shared neighborhoods,”¹⁷⁰ the strategy focuses on developing pragmatic, differentiated, bilateral cooperation with former Soviet states based on mutual interests.¹⁷¹

What are the implications of this larger policy line for the Transcaucasus? What are Russia’s main interests in the region today? Most analysts agree that under Putin’s leadership, Moscow has placed “great strategic importance on maintaining influence” in the Transcaucasus.¹⁷² They note that Moscow’s Transcaucasian policies have become more differentiated, focusing mostly on bilateral relations.¹⁷³ Although strategic thinking has shifted towards greater emphasis on geo-economic dimension of mutual relations, geopolitics and military interests continue to rank high among Russia’s regional priorities.

¹⁶⁶ Trenin, “Realpolitik Moskvii,” 2.

¹⁶⁷ Perovic, “From Disengagement to Active Economic Competition,” 4.

¹⁶⁸ Trenin, “Russia’s Foreign and Security Policy under Putin,” 1.

¹⁶⁹ National Security Council of the Russian Federation, “O Politike Rossiyskoi Federatsii na Prostranstve SNG” (On Politics of the Russian Federation toward the CIS). 14 July 2004, 1. Online. Available from <http://www.scrf.gov.ru/news/2004/07/19.shtml> (accessed 16 December 2005).

¹⁷⁰ See Andrei Zagorski, “Russia and the Shared Neighborhood,” in *What Russia Sees*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 74 (January, 2005), 69.

¹⁷¹ Trenin, “Russia’s Foreign and Security Policy under Putin,” 2-3.

¹⁷² Jim Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia: Political Developments and Implications for US Interests* (Washington DC: Library of Congress), 13 September, 2005, IB95024, 8. See also Perovic, “From Disengagement to Active Economic Competition,” 1.

¹⁷³ Lynch, “A Regional Insecurity Dynamic,” 17.

B. MILITARY-STRATEGIC INTERESTS

Traditionally, Moscow has been interested in preventing strategic penetration and the formation of a security vacuum in the Transcaucasus, and it appears that these concerns are as valid today as in the past.¹⁷⁴ According to Sergey Markedonov of the Institute of Political and Military Analysis, ensuring stability in the Transcaucasus is a “fundamental condition of Russia’s peaceful domestic development and the preservation of its integrity.”¹⁷⁵ Moscow views the North Caucasian republics and the Transcaucasian countries as indivisible part of the same “security complex,” and therefore, it is interested in building stability in the region as well as preventing or limiting foreign penetration into the Transcaucasus.¹⁷⁶ Russian strategic thinking has traditionally linked this objective with the need to maintain military presence in the region.¹⁷⁷

1. The Organization of the Collective Security Treaty: Armenian-Russian Military Cooperation

The CIS Collective Security Treaty, signed in 1992 by Armenia, Russia and the four Central Asian states of Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, was the first step in maintaining Russia’s armed presence in the Transcaucasus.¹⁷⁸ Initially, Russian political and military leadership thought that the CIS would develop towards an organization similar to the USSR, with a unified Commonwealth Armed Forces.¹⁷⁹ However, in early 1992 the illusions of CIS forces rapidly evaporated, after a significant number of states resisted the idea and pressed ahead with the creation of their own armed forces.¹⁸⁰ Moreover, a few countries that signed the CIS “Agreement of Supplying the Armed Forces” had major differences on fundamental issues of central financing and logistics.

Recognizing the realities of disagreements, the Russian military delegation proposed the Collective Security Treaty during the Tashkent summit in May 1992,

¹⁷⁴ Roy Allison, “Russia and the New States of Eurasia,” 446.

¹⁷⁵ “Russia Needs A Stable Caucasus” *RIA Novosti*, 26 May 2005. Online. Available from *LexisNexis* <http://www.lexis.com> (accessed 30 January 2006).

¹⁷⁶ Allison, “Russia and the New States of Eurasia,” 446.

¹⁷⁷ Lynch, “A Regional Insecurity Dynamic,” 17.

¹⁷⁸ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 9.

¹⁷⁹ de Haas, “The Development of Russia’s Security Policy,” 3.

¹⁸⁰ Odom, *The Collapse of the Soviet Military*, 383-385.

hoping at the same time to encourage Yeltsin to create a Russian Ministry of Defense, a move that Yeltsin had earlier resisted.¹⁸¹ The Tashkent summit and, subsequently, the creation of the Russian Ministry of Defense (with the latter's refusal to contribute resources to the Commonwealth forces) became major factors that permanently handicapped efforts to reincarnate the Soviet Military as the CIS Armed Forces.¹⁸²

The CST became an important regional security entity in 1993, after the accession of Azerbaijan and Georgia, which brought all the Southern Caucasian countries into Russia's security orbit. It is important to note that the Treaty provided mutual security guarantees to its signatories, but it did not address problems within the member-states, so the conflicts over Nagorno-Karabakh, South-Ossetia and Abkhazia remained unresolved.¹⁸³ Importantly, Baku refused to allow Russian troops in Azerbaijan, thus turning the 1993 withdrawal of the Soviet forces a permanent reality. Moreover, during the second half of the 1990s, Azerbaijan and Tbilisi increasingly joined efforts in courting NATO, Turkey and the U.S. as guarantors of their security.¹⁸⁴

During the same period, Armenian-Russian military ties continued to develop and strengthen. Their bilateral relations matured to a point that eleven protocols on military cooperation were signed in a single year (1996).¹⁸⁵ These protocols covered a wide range of issues, from joint military exercises to air defense cooperation to military training and research.¹⁸⁶ In April 1997, the Armenian Parliament and the Russian Duma ratified a 25 year agreement on stationing Russian military bases in Armenia.¹⁸⁷ The ratification of the treaty, which had been signed by Presidents Boris Yeltsin and Levon Ter-Petrosian in 1995, was delayed by the Duma "until the settlement of the Karabakh conflict, in order to

¹⁸¹ Odom, *The Collapse of the Soviet Military*, 375-376.

¹⁸² Ibid., 387.

¹⁸³ Saat, *The Collective Security Treaty Organization*, 3.

¹⁸⁴ Cornell, *Small Nations and Great Powers*, 365.

¹⁸⁵ Currently Armenian-Russian bilateral military cooperation is regulated by about sixty legal documents. See also Ministry of Defense of the Republic of Armenia, Speech of the Minister of Defense at the Center for Public Dialogue and Development: South Caucasus Regional Security Problems. 17 December 2004. Online. Available from <http://www.mil.am/arm/> (accessed 20 December 2004).

¹⁸⁶ Masih and Krikorian, *Armenia: At the Crossroads*, 107.

¹⁸⁷ "Armenia Legalizes Russian Military Bases," *Jamestown Monitor*, 30 April 1997. Online. Available from <http://www.jamestown.org> (accessed 15 December 2005).

avoid the risk of Russian military involvement in the conflict.”¹⁸⁸ However, the increasingly anti-Russian stance in Azerbaijan and Georgia highlighted Armenia’s role as Russia’s only reliable ally in the region, resulting in overwhelming Duma support for the treaty. In his report to the Duma, Russia’s deputy foreign minister Boris Pastukhov characterized the mission of Russian troops in Armenia as “ensuring, jointly with Armenian forces, the security of Armenia.”¹⁸⁹ He praised the agreement as “protecting Russian strategic interests in the Transcaucasus . . . where external forces are doing their utmost to prevent Russia’s close cooperation with the region’s countries.”¹⁹⁰ Comparing Armenia to Georgia, Pastukhov slammed official Tbilisi, saying that “extremist forces oppose the Russian military presence” there.¹⁹¹

In August 1997, Armenia and Russia signed a bilateral Treaty of “Friendship, Cooperation and Mutual Assistance,” which formalized their already mature military ties.¹⁹² Under the terms of the Treaty, the signatories pledged to consult each other and provide mutual military support if “either side is attacked or considers itself threatened by a third party.”¹⁹³ The sides also pledged to “jointly protect Armenia’s borders with non-CIS countries, proceeding from Russia’s and Armenia’s security interests and CIS collective security interests.”¹⁹⁴ The Treaty was signed for a 25-year period, with automatic ten-year extensions, unless denounced by either side with one year’s notice.

The importance of the Treaty for Russia can hardly be exaggerated. It enabled Russia to maintain its forces and forward-positioned military hardware in the Transcaucasus in a “friendly environment.”¹⁹⁵ Armenia’s location in the Transcaucasus has high geopolitical value for Russia, since it is seen as “the only wedge between Turkey

¹⁸⁸ “Duma Ratifies Treaty on Russian Military Bases in Armenia,” *Jamestown Monitor*, 27 April 1997. Online. Available from <http://www.jamestown.org> (accessed 15 December 2005).

¹⁸⁹ Ibid.

¹⁹⁰ Cornell, *Small Nations and Great Powers*, 364.

¹⁹¹ “Duma Ratifies Treaty on Russian Military Bases in Armenia,” *Jamestown Monitor*.

¹⁹² Allison, “Russia and the New States of Eurasia,” 446.

¹⁹³ “Armenia Signs Military Alliance with Russia,” *Jamestown Monitor*, 12 September 1997. Online. Available from <http://www.jamestown.org> (accessed 15 December 2005).

¹⁹⁴ Ibid.

¹⁹⁵ Ibid.

and Azerbaijan and the rest of the Turkic world.”¹⁹⁶ The Treaty was also intended to strengthen the Collective Security Treaty and to provide a basis for similar bilateral agreements with specific CST members. Importantly, in 1999, Azerbaijan and Georgia refused to extend their participation in the CST. As a result, Armenia was left as Russia’s “only ally in the south”¹⁹⁷ and the only CST member in the region, thereby reinforcing “Moscow’s dependence on Armenia.”¹⁹⁸

In 2002, the CST was reorganized into a political-military Organization of the Collective Security Treaty (CSTO) in order to bring its “activities and procedures to a higher level”¹⁹⁹ and to address “new threats and challenges: international terrorism, illegal narcotics and transnational crime.”²⁰⁰ The legal charter of the Organization included a mutual defense provision, similar to Article 5 of NATO Charter.²⁰¹ The signatories of the CSTO agreed to create a joint command structure headquartered in Moscow, a Joint Staff operational in Kyrgyzstan, and to upgrade the rapid reaction force established in 2001 for the Central Asian security region.

The member-states also agreed to set up a common air defense system, to improve communications, intelligence gathering and sharing.²⁰² Moreover, the signatories decided to achieve greater coordination of security, defense and foreign policies on regional and international developments.²⁰³ Russia pledged to provide military education to cadets and junior officers from the CSTO states at reduced prices and agreed to supply military equipment developed by Russian manufacturers to other CSTO members at Russia’s

¹⁹⁶ Masih and Krikorian, *Armenia: At the Crossroads*, 108-109.

¹⁹⁷ Ministry of Defense of the Russian Federation, Press Conference of the Chief of General Staff, Yu. N. Baluyevski. 1 December 2005. Online. Available from <http://www.mil.ru/articles/article11654.shtml> (accessed 30 January 2006).

¹⁹⁸ “Russia: Transcaucasian Tensions,” *Oxford Analytica*, 3.

¹⁹⁹ Saat, *The Collective Security Treaty Organization*, 4.

²⁰⁰ “Russia/CIS: CSTO – Much Grandeur but Little Power,” *Oxford Analytica*, 11 June 2003, 1. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006).

²⁰¹ “Russia/CIS: CSTO – Much Grandeur but Little Power,” *Oxford Analytica*, 2.

²⁰² A joint command structure was formed in 2005. See Igor Kozhev, “Goryachaya Osen’ Minoboroni” (Hot Autumn of the Ministry of Defense). *Vesti Information Agency*. 31 August 2005. Online. Available from <http://www.rtr-vesti.ru/> (accessed 31 August 2005).

²⁰³ “Russia/CIS: CSTO – Much Grandeur but Little Power,” *Oxford Analytica*, 2.

domestic rates.²⁰⁴ It has been suggested that standardized military training based on the Russian model and “accelerated militarization” of Central Asian and Caucasian regions provide additional opportunities for Russia to enhance its influence and limit Western involvement there.²⁰⁵ Additionally, it is thought that in the future, customers of Russian military equipment are likely to depend on Russia for spare parts, weapons and ammunition.²⁰⁶

As far as the “Caucasus security district”²⁰⁷ is concerned, the military component appears to be the cornerstone of the Organization.²⁰⁸ As a member of the CSTO, Armenia buys Russian military equipment at Russia’s domestic prices. For instance, it has been reported that in May 2004, Armenia acquired two Il-76 military transports at discounted prices.²⁰⁹ Armenia actively participates in CSTO command and control training and annual air defense exercises. Joint air defense is one of the most important elements of cooperation within the CSTO. Russian forces in Armenia provide air defense with an aviation group of MiG-29 jetfighters and advanced S300 air defense batteries.²¹⁰ There are about 4,000 Russian troops in Armenia, more than half of whom are locally-recruited Armenian citizens.²¹¹ Along with the military education that Armenian officers receive in Russia, local recruitment is an important source of training on modern Russian weaponry.²¹²

It is important to note that the creation of the CSTO is consistent with Putin’s strategy of reintegrating Russia within the CIS. The Organization has an ambitious

²⁰⁴ Saat, *The Collective Security Treaty Organization*, 5-8.

²⁰⁵ Trenin and Malashko, *Russia’s Restless Frontier*, 177.

²⁰⁶ Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 97-98.

²⁰⁷ The Caucasus security district was established in 2000 at a meeting of the Council of Collective Security in Minsk, Belarus. See Saat, *The Collective Security Treaty Organization*, 4.

²⁰⁸ “Kocharian: Osnovniye Tseli ODKB Voyenniye,” (Kocharian: CSTO’s main objectives are military) *Polit.ru*. 23 June 2005. Online. Available from <http://www.polit.ru/> (accessed 23 June 2005).

²⁰⁹ Tatul Hakobyan, “Erevany Erku Orov Pashtpanutyany Nakharameri Havaqateghi” (Yerevan will Host the CIS Defense Ministers for Two Days), *Azg*. 21 May 2004. Online. Available from <http://www.azg.am> (accessed 15 September 2005).

²¹⁰ “Armenia/Russia: Yerevan Plays Moscow Against West,” 2.

²¹¹ Ministry of Foreign Affairs of the Republic of Armenia, “Unedited Text of Minister Oskanian’s Talk at the Center for Strategic and International Studies in Washington DC,” June 1999. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 30 January 2006).

²¹² Masih and Krikorian, *Armenia: At the Crossroads*, 107.

agenda and is determined to play a significant role in Eurasian security.²¹³ In 2003 the Organization launched operations entitled “Canal” to discover and block channels for trafficking narcotics and their precursors.²¹⁴ In 2004, the CSTO’s Rapid Reaction Force was tested in an “extensive military anti-terrorist exercise” named Rubezh-2004.²¹⁵ The following year a large-scale command-staff training exercise of the Joint Air-Defense System was conducted together with Rubezh-2005 maneuvers in Central Asia. In 2005, member-states agreed to develop joint peacekeeping forces and expressed their desire to cooperate with NATO on emergency management and drug fighting operations.²¹⁶ Additionally, Russia is reported to have allocated sizeable funds to develop the military infrastructure in its Central Asian and Armenian bases.²¹⁷

Despite CSTO’s progress, some analysts are skeptical of its future, citing problems of “dubious multilateralism,” “dysfunctional composition,” and technical as well as financial difficulties.²¹⁸ They maintain that the unity of the CSTO is based more on members’ pragmatic considerations, rather than a commonality of interests or consensus on external threat perceptions.²¹⁹ In contrast, others have described the CSTO as the “only guarantee of security in the CIS region.”²²⁰ The reality, however, is that despite the lack of tangible progress in the past, the CSTO “seems to be making changes for the better.”²²¹ Importantly, the future of the Organization, as J. Saat argues, will depend significantly on the mutuality of member’s interests and their genuine desire to cooperate.

²¹³ Saat, *The Collective Security Treaty Organization*, 9.

²¹⁴ “V Khode Mezhdunarodnoy Operacii ‘Kanal 2005’ Iz’yato Bolee 11 Tonn Narkotikov,” (Eleven Tons of Narcotics Were Confiscated During the Canal 2005 Operation). *Regnum*. 28 December 2005. Online. Available from <http://www.regnum.ru/> (accessed 28 December 2005).

²¹⁵ Saat, *The Collective Security Treaty Organization*, 1.

²¹⁶ “V ODKB Planiruyetsya Sozdaniye Kollektivnykh Mirotvorcheskikh Sil,” (CSTO Plans to Form Collective Peacekeeping Forces). *Arminfo News Agency*. 15 August 2005. Online. Available from http://www.arminfo.info/index_ru3.shtml (accessed 16 August 2005).

²¹⁷ “Arifmetika ODKB,” (The Arithmetic of the CSTO) *Nezavisimaya Gazeta*. 11 April 2005. Online. Available from <http://www.ng.ru/> (accessed 20 June 2005).

²¹⁸ “Russia/CIS: CSTO – Much Grandeur but Little Power,” *Oxford Analytica*, 2.

²¹⁹ Richard Sakwa and Mark Webber, “The Commonwealth of Independent States, 1991-1998: Stagnation and Survival,” *Europe-Asia Studies*, Vol. 51, No. 3 (May 1999), 384-385.

²²⁰ Saat, *The Collective Security Treaty Organization*, 10.

²²¹ Ibid.

2. Russia's Military Presence in Georgia and Azerbaijan

Russia has a mixed record of success in its military ties with two other Transcaucasian countries. Russian relations are improving with Azerbaijan, and have generally deteriorated with Georgia.²²² In 2002, Azerbaijan consented to a ten-year lease that allows Russia to maintain a huge Soviet-era radar installation at Gabala and to station up to 1,500 Russian troops there.²²³ Gabala is believed to be a “vital military establishment”²²⁴ for Russia. The radar station is a \$10 billion investment and is “capable of monitoring air traffic over Turkey, Iran, China, India, Iraq, Pakistan and much of northern Africa.”²²⁵ In February 2006, Ilham Aliiev and Putin agreed to intensify their bilateral military-technical cooperation, instructing their governments to “improve the legal framework . . . and come up with a plan of appropriate practical steps.”²²⁶ Although Azerbaijan aspires to NATO membership, it has been careful not to provoke Russian fears and has denounced any plans for stationing of NATO troops in Azerbaijan.²²⁷

Russia also maintains military bases in Georgia and peacekeepers in Georgia's breakaway regions of South Ossetia and Abkhazia.²²⁸ Importantly, Georgia has come to view the Russian armed presence as a bridgehead for Moscow's neo-imperial policy.²²⁹ In 1999, the agreement on Russia's protection of the Turkish-Georgian border expired and Tbilisi refused to extend it, thus ending the presence of Russian border guards in Georgia.²³⁰ The same year, at the Organization for Security and Co-operation in Europe (OSCE) summit in Istanbul, Russia agreed to reduce its armed presence in Georgia - in compliance with the adapted Treaty on Conventional Armed Forces in Europe. The

²²² Lynch, “A Regional Insecurity Dynamic,” 18.

²²³ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 9.

²²⁴ Thomas Goltz, *Azerbaijan Dairy: A Rogue Reporter's Adventures in an Oil-Rich, War-Torn, Post-Soviet Republic* (New York: M. E. Sharpe, 1998), xxi.

²²⁵ Ministry of Foreign Affairs of the Republic of Armenia, “The Nagorno Karabakh Crisis: A Blueprint for Resolution,” A Memorandum Prepared by the Public International Law and Policy Group, May 2000. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 30 January 2006).

²²⁶ Ruzanna Stepanian and Astghik Bedevian, “Armenian Army Chief Untroubled By Russian-Azeri Military Ties,” *RFE/RL*, 23 February 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 23 February 2006).

²²⁷ See Zagorski, “Russia and the Shared Neighborhood,” 66.

²²⁸ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 4-9.

²²⁹ “Russia Needs A Stable Caucasus” *RIA Novosti*, 26 May 2005.

²³⁰ Cornell, *Small Nations and Great Powers*, 353.

agreement required Russia to close its two military bases in Vaziani and Gadauta and to reach an agreement on the status of two other bases in Batumi and Akhalkalaki during 2000. Russia partially fulfilled its obligations and after dismantling of the first two bases delayed the implementation of the agreement. Russian troops in Batumi and Akhalkalaki became a major source of friction in Russian-Georgian bilateral relations in early 2005.

Russian authorities repeatedly stated that the remaining bases were of little importance for Moscow,²³¹ but despite those announcements continued to resist withdrawal. According to Pavel Baev, the two remaining bases located in politically unstable regions of Georgia could be seen in Moscow as a potential lever of influence over Saakashvili's Georgia.²³² Others have suggested that Russia delayed the negotiations in order to link them to a Russian-Georgian bilateral treaty and to demand legally binding restriction against Georgia's stationing a third country's military bases on its soil.²³³ Although Georgian leaders have repeatedly pledged that no third country's military will be based in their country, they refused to include this provision in the agreement on the grounds that it would limit their sovereignty.²³⁴ In July 2005, Russia finally agreed to withdraw its two remaining bases by 2008. It has been suggested that Russia was spurred to come to that agreement by pressure from the Georgian legislature and strong U.S. and NATO support of demands for a speedy Russian withdrawal.²³⁵ Importantly, Moscow decided to transfer some of the military hardware from the Akhalkalaki base to its military base in Gyumri, Armenia, sparking protests from Azerbaijani leadership who fear that the equipment will "end up in Armenian hands."²³⁶

²³¹ "Russian Deputy Foreign Minister Speaks of the Relations with Georgia," *Civil Georgia*, 11 February 2005. Online. Available from <http://www.civil.ge/> (accessed 30 January 2006).

²³² Pavel Baev, "Russia's Policies in the North and South Caucasus," in *The South Caucasus*, 49.

²³³ Vladimir Socor, "Moscow Multiplying Extraneous Preconditions to Troop Withdrawal from Georgia," *Jamestown Monitor*, 14 February 2005. Online. Available from <http://www.jamestown.org/> (accessed 20 February 2005).

²³⁴ Jean Cristoph Peuch, "Georgia/Russia: Negotiations on the Treaty Hit Deadlock," *RFE/RL*, 16 February 2005. Online. Available from <http://www.rferl.net/> (accessed 20 February 2005).

²³⁵ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 10. See also "Russia, Georgia Resume Talks Over Military Bases, but No Breakthrough Anticipated," *Civil Georgia*, 23 June 2004. Online. Available from <http://www.civil.ge/> (accessed 30 January 2006).

²³⁶ Ruzanna Stepanian, "Russia, Armenia Vow to Keep Up Close Military Ties," *RFE/RL*, 26 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 26 January 2006).

In early 2006, Russian-Georgian relations reached a new low. Georgia withdrew its membership from the CIS Council of Defense Ministers, stating that Tbilisi is not interested in the military component of the CIS. Russian Defense Minister Ivanov tried to downplay Georgia's move, presenting it as an insignificant event for the security of the CIS.²³⁷ Additionally, tensions flared over the issue of Russian peacekeepers in Georgia's breakaway regions of South Ossetia and Abkhazia. Both sides accused each other of staging provocations and escalating the situation in South Ossetia. Political authorities in Tbilisi argued that the presence of Russian peacekeepers in Georgia poses a threat to country's security and stability and called for their withdrawal.²³⁸

On February 15, 2006, the Georgian Parliament unanimously passed a resolution instructing the government "to secure a replacement of the peacekeeping troops of the Russian Federation stationed in the former South Ossetian Autonomous District with effective international peacekeeping operation."²³⁹ Interestingly, the resolution did not set deadlines for the government to execute Parliament's instructions. Meanwhile, Moscow described the attitude of Georgian authorities towards peacekeepers as going "beyond all bounds."²⁴⁰ It warned that the withdrawal of Russian peacekeepers may lead to "resumption of civil war."²⁴¹ Additionally, the parliament of the unrecognized republic of Abkhazia ratified a Treaty of Cooperation and Friendship with South Ossetia, and the Abkhazian leadership announced that they will provide every support and assistance to South Ossetia if the situation escalates there.²⁴²

²³⁷ "Ivanov: Ot Resheniya Gruzii Bezopasnost' SNG ne Postradayet" (Ivanov: Georgia's Decision Will Not Affect the CIS Security). *Polit.ru*. 04 February 2006. Online. Available from <http://www.polit.ru/> (accessed 04 February 2006).

²³⁸ "Georgian Security Chief: Russian Peacekeepers Pose a Threat," *Civil Georgia*. 01 February 2006. Online. Available from <http://www.civil.ge/> (accessed 01 February 2006).

²³⁹ "Parliament Approves Resolution on Peacekeepers," *Civil Georgia*. 15 February 2006. Online. Available from <http://www.civil.ge/> (accessed 15 February 2006).

²⁴⁰ "Lavrov: Tbilisi's Actions against Peacekeepers Go beyond All Bounds," *Civil Georgia*. 15 February 2006. Online. Available from <http://www.civil.ge/> (accessed 15 February 2006).

²⁴¹ "Russian Chief of Staff Comments on Peacekeepers," *Civil Georgia*. 16 February 2006. Online. Available from <http://www.civil.ge/> (accessed 16 February 2006).

²⁴² Aleksandr Rogatkin, "Gruziya Provotsiruyet," (Georgia Provokes) *Vesti Information Agency*. 15 February 2006. Online. Available from <http://www.rtr-vesti.ru/> (accessed 15 February 2006).

It has been suggested that thousands of residents of Abkhazia and South Ossetia have been granted Russian citizenship during recent years. Should the situation escalate in South Ossetia, the Russian Deputy Foreign Minister Karasin stated, Russia will intervene to “protect its citizens and maintain stability in South Ossetia.”²⁴³ Analysts believe that this “ostensible interest in protecting human rights is a stalking horse for Russia’s military-strategic and economic interests.”²⁴⁴ It is important to note that ethnic Russians constitute a very small percentage of the population of the South Caucasus, excluding Georgia’s regions of Abkhazia and South Ossetia. Therefore, the issue of Russian minorities is not given much weight in Russia’s bilateral relations with Southern Caucasian countries, especially given that none of the countries pursues anti-Russian, discriminatory policies.²⁴⁵

3. Islamic Radicals and Terrorists in the Transcaucasus

In 2001 and 2002, Russian-Georgian relations reached another high-tension mark. The tensions were focused on Georgia’s Pankisi Gorge, which had become a lawless criminal area where Islamic radicals and Chechen militants linked to Al Qaeda found shelter.²⁴⁶ With its own large Muslim populations concentrated mainly in the North Caucasus, Russia feared that Islamic fundamentalism might spread and destabilize Russia itself.²⁴⁷ Moscow was also concerned with drug trafficking and illegal immigration, as well as weapons transfer across the Georgian border to Chechen fighters in the North Caucasus.

The crisis over terrorists infiltrating Russia from Pankisi was extensively covered in Russia and Georgia, with each side “exchanging charges and counter-charges.”²⁴⁸ Georgia long denied the presence of Chechen fighters and terrorists on its soil. In 2001,

²⁴³ “Tbilisi Fears Russia May Use Force to Protect Its Citizens in South Ossetia,” *Civil Georgia*. 08 February 2006. Online. Available from <http://www.civil.ge/> (accessed 08 February 2006).

²⁴⁴ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia* (Washington DC: Library of Congress), 15 June 2005, IB95024, 11.

²⁴⁵ Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 95.

²⁴⁶ Svante Cornell et al, *The South Caucasus: A Regional Overview and Conflict Assessment*, Cornell Caspian Consulting (Stockholm: August 2002), 56-57.

²⁴⁷ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 8. See also Olga Oliker, “Conflict in Central Asia and South Caucasus,” 191.

²⁴⁸ Kipp, “War Scare in the Caucasus, 234.

however, the Georgian Ministry of Internal Affairs facilitated the movement of several hundred Chechen fighters from Pankisi to the Kodori Gorge in Abkhazia, where they became involved in fighting with Abkhazian secessionists.²⁴⁹

The scandal spurred Western criticism and cost the Minister of Internal Affairs his job, but even then Shevardnadze described the Chechen commander, Ruslan Gelayev, as “a normal thinking and educated man who favors Georgia.”²⁵⁰ Russia officially accused Georgia of harboring Chechen terrorists who used Georgia as a staging area for attacks on Chechnya.²⁵¹ Putin noted in 2002 that Russia might be compelled to pursue Chechen terrorists into Georgian territory.²⁵²

There were aircraft attacks on the Gorge in 2002, but Russia denied any responsibility. The United States unequivocally opposed unilateral Russian intervention against Georgia.²⁵³ Russian-Georgian tensions decreased somewhat in late 2002, after Georgia launched a policing effort in Pankisi and agreed with Russia to have joint border patrols.²⁵⁴ It has been suggested, however, that Russia was less interested in confronting the terrorist threat than in exploiting the issue to influence the outcome of the political transition in Georgia.²⁵⁵

It is important to note that the threat of radical Islam destabilizing the South Caucasus and spreading into Russia is less acute when compared to Central Asia. Azerbaijan, a secular, predominantly Muslim country, is considered a potential target for radical Islamists. Although the religious confrontation was not strongly pronounced during Azerbaijan’s war with Christian Armenians, later economic difficulties and the presence of a large number of refugees in Azerbaijan led to calls to “resolve the conflict

²⁴⁹ David Darchiashvili, “Georgian Security Problems and Policies,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December, 2003), 117.

²⁵⁰ Kipp, “War Scare in the Caucasus,” 236.

²⁵¹ Ibid., 237.

²⁵² Darchiashvili, “Georgian Security Problems and Policies,” in *The South Caucasus*, 117.

²⁵³ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 10.

²⁵⁴ Kipp, “War Scare in the Caucasus,” 237.

²⁵⁵ Baev, “Russia’s Policies in the North and South Caucasus,” in *The South Caucasus*, 44.

on an Islamic basis.”²⁵⁶ The Islamic Party of Azerbaijan was reactivated and became preoccupied with the idea of Islamic revolution, but its plans were subsequently disrupted by state authorities.

In 1995 Russia officially accused Azerbaijan of harboring Chechen rebels and Islamic charities that funded paramilitary camps for the militants. That same year, Moscow closed its border with Azerbaijan, an action which had little effect on the issue. Russian pressure on Azerbaijan increased in 1999. This time, however, it resulted in Russian-Azerbaijani rapprochement on the issue of Chechen terrorists.²⁵⁷ It has been suggested that Heidar Aliev’s concern “over the succession of power in his own family” was the driving force behind this demonstration of loyalty.²⁵⁸

Azerbaijan took some practical measures to identify and neutralize Islamic radicals and Chechen terrorists. It closed the Chechen cultural center in Baku, which was considered “a front for Chechen separatists.”²⁵⁹ Russia announced that Baku was taking efficient measures “aimed at preventing the proliferation of international terrorism in the Transcaucasus.”²⁶⁰ More recently, Azerbaijan’s Deputy Minister of Internal Affairs reported that during 2005, 43 individuals suspected in terrorist activities were detained and six organizations that finance terrorists were shut down in Azerbaijan.²⁶¹ Interestingly, there were also reports of Al Qaeda emissaries visiting Azerbaijan to obtain components for the production of chemical weapons.²⁶² Analysts, however, believe that at present the problem of Islamic radicals “does not seem too serious.”²⁶³

²⁵⁶ Trenin and Malashko, *Russia’s Restless Frontier*, 99.

²⁵⁷ Lynch, “A Regional Insecurity Dynamic,” in *The South Caucasus*, 18.

²⁵⁸ Trenin and Malashko, *Russia’s Restless Frontier*, 173.

²⁵⁹ “Azerbaijan/Russia: Baku Circumspect in War on Terror,” *Oxford Analytica*, 20 November 2002, 2. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006).

²⁶⁰ Trenin and Malashko, *Russia’s Restless Frontier*, 173.

²⁶¹ “Adrbejanum Dadaretsvel eh Ahabekchutyunha Finansavorogh Vets Kazmakerputyunneri Gortsuneutyunha” (Terrorism Financing Six Organizations Have Been Shut down in Azerbaijan). *RFE/RL*, 02 February 2006. Online. Available from <http://www.armenialiberty.org/> (accessed 02 February 2006).

²⁶² Trenin and Malashko, *Russia’s Restless Frontier*, 100.

²⁶³ Ibid., 99.

C. ECONOMIC INTERESTS

1. Trade Relations

Over the past decade Russia's economic importance for the three Transcaucasian countries (in terms of volume of trade turnover) has declined, as these countries' economies have gradually adjusted to the dissolution of the interdependent links of the Soviet integrated economy.²⁶⁴ The regional blockades, imposed in connection with the Chechen and Abkhazian conflicts, the weakness of the Russian economy during much of the 1990s, as well as the entrance of foreign players and investors into the regional economy, all contributed to the relative decline in Russia's trade importance for the regional countries.²⁶⁵

The three Transcaucasian countries were highly dependent on trade links with Russia and suffered an unprecedented crisis in the immediate aftermath of the collapse of the Soviet Union.²⁶⁶ Their economies started to recover slowly and national currencies began to stabilize in 1995-1996. All three countries demonstrated an increasing propensity to trade and all have managed to redirect their exports and imports from the CIS to third-country, mostly European, markets.²⁶⁷ For instance, from 1991 to 2001 the share of exports to the CIS countries in total exports of Armenia, Azerbaijan and Georgia decreased, respectively, from 98 percent to 26 percent, from 95 percent to 10 percent and from 94 percent to 45 percent.²⁶⁸ A similar trend was observed with regard to their share of imports from CIS countries.

It is important to note that the Southern Caucasian countries generally agreed that the CIS was unable to provide serious economic benefits for them. The Agreement on the

²⁶⁴ Herzig, *The New Caucasus: Armenia, Azerbaijan and Georgia*, 103.

²⁶⁵ Ibid. The railway that connects Russia to the South Caucasus states via Abkhazia remains closed since 1993. In late 2005, Russia proposed setting up of a joint venture with Georgia and Armenia in order to unite efforts in restoring and reopening the Abkhazian railroad. However, the unresolved Abkhazian conflict impedes the project. Georgia has long linked this issue with the settlement of the Abkhazian conflict and the return of Georgian refugees to the breakaway region. Abkhazia strongly opposes such issue-linkages. See Vladimir Novikov, "Ways of Disconnection," *Kommersant Daily*, 17 June 2005. Online. Available from <http://www.kommersant.com/> (accessed 15 December 2005).

²⁶⁶ Pavel Baev, *Challenges and Options in the Caucasus and Central Asia* (Strategic Studies Institute, 1997), 10-12. Online. <http://www.strategicstudiesinstitute.army.mil/> (accessed 02 February 2006).

²⁶⁷ Herzig, *The New Caucasus: Armenia, Azerbaijan and Georgia*, 141.

²⁶⁸ Igor Burakovsky, "Economic Integration and Security in the Post-Soviet Space," in *Swords and Sustenance*, ed. Robert Legvold and Celeste Wallander (Cambridge, MA: MIT Press, 2004), 164.

Free Trade Area was never implemented and in 2006 interstate trade relations were regulated by bilateral agreements subject to numerous restrictions.²⁶⁹ None of the Southern Caucasian countries was a member of the Russian-dominated EurAsEC in 2006, and none showed an intention to join it. Analysts believe that joining such free trade regimes may result in increasing trade deficits between new members and Russia.²⁷⁰

Although Russia's overall economic performance in terms of trade turnover is "relatively moderate when seen in international context," Russia still remains an important trading partner for each of the three Southern Caucasian states because of its economic weight and Soviet-era structural dependencies.²⁷¹

Table 1. Trade Relations in Countries of the Transcaucasus, 2003 (From: Statistical Yearbook of Armenia, 2004. Online. <http://www.armstat.am/>; Statistical Yearbook of Azerbaijan, 2004. Online. <http://www.azstat.org/>; and Statistical Yearbook of Georgia, 2004. Online. <http://www.statistics.ge> (accessed 14 February 2006)

Countries	Main Export Partners	Main Import Partners	% of Trade with Russia
Armenia	Israel 20.8% Belgium 18.1% Russia 13.8% US 8.2%	Russia 15.9% Belgium 10.1% US 8.7% Israel 9.7%	15.1%
Azerbaijan	Italy 51.9% France 8.1% Russia 5.7% Israel 5.3%	Russia 14.6% UK 10.9% Turkey 7.4% Turkmenistan 7.2%	10.2%
Georgia	Russia 18.0% Turkey 17.7% Turkmenistan 12.6% Switzerland 7.1%	Russia 14.1% UK 12.8% Turkey 9.8% Azerbaijan 8.2%	15.3%

²⁶⁹ Oleksandr Sushko, "The Dark Side of Integration: Ambitions of Domination in Russia's Backyard," *The Washington Quarterly*. Vol. 27. No. 2. (Spring 2004), 120-123.

²⁷⁰ Ibid., 125.

²⁷¹ Perovic, "From Disengagement to Active Economic Competition," 8-9.

The volume of bilateral Armenian-Russian and Georgian-Russian trade has declined in 2004, comprising only 12.4 percent and 14.5 percent of overall Armenian and Georgian external trade, respectively.²⁷² Interestingly, a considerable part of that quite modest bilateral trade came from supplies of Russian energy and other natural resources and was based on asymmetrical interdependent relationships. As the Armenian President once described it, “not much will be left [of bilateral trade] if we exclude the gas component from it.”²⁷³ It is believed that Moscow’s benefits in such trade relations were not so much economic as political, since the overall share of all CIS countries in Russia’s external trade turnover was about 16 percent in 2005.²⁷⁴

2. Energy Relations: A Strategy of Expansion

The structure of energy relations between Russia and the Transcaucasian countries is “highly asymmetric,” which makes most of them dependent on Russia for their security, economic development and internal stability.²⁷⁵ From the neoliberal perspective the major source of power in the modern world derives from asymmetrical interdependence, which can be manipulated to exert political influence over resource-insufficient countries that cannot respond adequately to the effects of external changes (such as the increased price of vital resources, cuts in resource deliveries, etc). Analysts believe that such dependent relationships may endanger “the formal independence and autonomy of small states with regards to their ability to make decisions.”²⁷⁶ As noted above, exploiting this type of dependence is the cornerstone of Russia’s “Operation CIS.”

With this strategy, Russia aims to achieve control over key strategic areas that are important for acquiring a de facto hegemonic position in the CIS. It is thought that exploitation of vulnerabilities in key energy sectors (electricity, gas and oil) can provide

²⁷² See Statistical Yearbook of Armenia, 2005. National Statistical Service of the Republic of Armenia. Online. Available from <http://www.armstat.am/>; See also Statistical Yearbook of Georgia, 2005. Department for Statistics of the Ministry of Economic Development of Georgia. Online. Available from <http://www.statistics.ge> (accessed 14 February 2006).

²⁷³ Emil Danielyan and Hrach Melkumyan, “Russia’s Putin Begins Armenia Visit,” *RFE/RL*, 14 September 2001, Online. Available from <http://www.armenialiberty.org/> (accessed 05 December 2005).

²⁷⁴ Sushko, “The Dark Side of Integration,” 125. See also Federal State Statistics Service of the Russian Federation, *External Trade Turnover*, 2004. Online. Available from http://www.gks.ru/scripts/db_inet/dbinet.cgi?pl=2123001 (accessed 14 February 2006).

²⁷⁵ Perovic, “From Disengagement to Active Economic Competition,” 1.

²⁷⁶ Sheffer, “The Security of Small Ethnic States: A Counter Neo-Realist Argument,” 27-28.

Moscow with leverage over both the internal political developments and the foreign policies of the CIS countries.²⁷⁷ If the regional countries remain dependent on Russia's energy resources and/or on pipeline energy network systems, then they will remain an organic part of Moscow's "sphere of influence."²⁷⁸ The creation of a common CIS market for key energy sectors will inevitably strengthen Russia's position in the CIS by keeping foreign competitors out.

Under Putin's leadership, Moscow has tightened its control over corporate energy interests and has encouraged their international expansion, bringing their agenda in line with the economized foreign policy of the Russian state. Therefore, when it comes to energy issues in the Transcaucasus, the Russian state and the Russian energy monopolists appear almost as "unitary entities" with overlapping interests that serve the larger geo-economic and geopolitical goals of the state.²⁷⁹

Each key energy sector in Russia has its leading company, which acts as a vanguard of Russia's economic expansion, conquering what might become Russia's "liberal empire."²⁸⁰ The "driving force of expansion" within the electricity sector is the Russian electricity monopolist RAO Unified Energy Systems (UES), which is 52.5 percent state-owned.²⁸¹ Within the gas sector the force of expansion is Russia's gas monopolist Gazprom, whose major shareholder is the Russian government with 38.7 percent.²⁸² Gazprom is also a major player in the oil sector, which is represented by several other companies, including Russia's LUKoil and Yukos companies. These three companies have formed a consortium that is jointly developing oil reserves in the Russian part of the Caspian.²⁸³ Importantly, the management of oil pipelines is done through another state-controlled company, Transneft, whose pipelines serve as the main export route for Caspian oil.²⁸⁴ Until the construction of Baku-Tbilisi-Ceyhan (BTC) pipeline

²⁷⁷ Perovic, "From Disengagement to Active Economic Competition," 4.

²⁷⁸ Ibid.

²⁷⁹ Ibid.

²⁸⁰ Sushko, "The Dark Side of Integration," 128.

²⁸¹ Perovic, "From Disengagement to Active Economic Competition," 4.

²⁸² Ibid., 4.

²⁸³ Ibid., 3.

²⁸⁴ Ibid., 4.

that bypasses Russia, the main export route for the Azerbaijani oil was the Baku-Novorossiysk pipeline, which went through Russia. The amount of oil exported through that pipeline accounted for only one percent of Russia's overall oil exports,²⁸⁵ but maintaining its monopoly over energy flow gave Moscow a dominant bargaining position over Baku and a potential lever for political influence.

Russian oil giant LUKoil initially acquired a small share in a major Caspian oil consortium, the Azerbaijan International Operating Company (AIOC).²⁸⁶ Later in 2002, it pulled out of Azerbaijan, causing a lot of speculation.²⁸⁷ According to some analysts, LUKoil's withdrawal was "related to the company's broader strategic retrenchment and debt consolidation," rather than traditional geopolitics.²⁸⁸ Recently, it has been reported that LUKoil has failed to find "commercially viable hydrocarbon reserves" at the Yalama block in Azerbaijan, where it remained invested after the pullout from AIOC.²⁸⁹ Interestingly, LUKoil still remains an investor in the Shah Deniz offshore gas field in Azerbaijan, which is scheduled to deliver six to seven billion cubic meters of gas to Turkey in late 2006 through the Baku-Tbilisi-Erzurum (BTE) pipeline, currently under construction.²⁹⁰

Russia tries to play a major role in Caspian oil production and transportation for apparent economic and political reasons. Initially, the Russian leadership insisted that the legal status of the Caspian Sea had to be determined before its energy resources could be used.²⁹¹ This obstructionist strategy, however, did not prevent but rather encouraged the

²⁸⁵ "Baku-Tbilisi-Ceyhan Pipeline: Oil or Politics?" *RIA Novosti*, 06 June 2005. Online. Available from *LexisNexis* <http://www.nexis.com> (accessed 30 January 2006).

²⁸⁶ AIOC is a consortium of 10 major international oil companies and Azerbaijan state oil company SOCAR. It is developing offshore Azeri, Chirag, and deep water Gunashli fields in the Azerbaijan sector of the Caspian. See U.S. Department of Energy, Energy Information Administration (EIA), "Azerbaijan, Country Analysis Brief," June 2005. Online. Available from <http://eia.doe.gov/> (15 December 2005).

²⁸⁷ "CIS/Russia: Russian Business Tightens Grip on CIS," *Oxford Analytica*, 06 May 2003, 2. Online. Available from *Proquest* <http://www.proquest.com/> (accessed 30 January 2006).

²⁸⁸ Douglas Blum, "Why Did Lukoil Really Pull Out of the Azeri-Chirag-Guneshi Oilfield?" *PONARS Memo*, 286 (Washington, DC: CSIS, January 2003), 1-6.

²⁸⁹ U.S. Department of Energy, (EIA), "Azerbaijan, Country Analysis Brief."

²⁹⁰ Blum, "Why Did Lukoil Really Pull Out of the Azeri-Chirag-Guneshi Oilfield?" 5.

²⁹¹ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 15 June 2005, 10.

Caspian states to seek foreign support to push their oil production and transportation through third-country routes—bypassing Russia.²⁹²

Under Putin's leadership, Russia's Caspian energy policy has become more consistent and pragmatic.²⁹³ Putin aimed at achieving better coordination of Moscow's oil diplomacy, which from the mid 1990s was trapped between the state policy crafted in terms of East-West geopolitical competition and major corporate interests.²⁹⁴ Moscow took practical steps to dissipate the controversy with Azerbaijan over the division of Caspian energy reserves, and eventually consented to the construction of the BTC pipeline.²⁹⁵ In 2003, Azerbaijan, Kazakhstan and Russia concluded a trilateral maritime border agreement based on a "Modified Median Line."²⁹⁶ It has been suggested that this change in Moscow's policy was motivated by Russia's desire to participate in the development of the huge Kashagan oilfield in Kazakhstan's sector of the Caspian, as well as the "need to establish property rights on the newly discovered oilfield" in Russia's part of the Sea.²⁹⁷

The relative inactivity of the oil sector in the Transcaucasus is offset by the expansionist policies of RAO UES and Gazprom. The Southern Caucasian states face a "serious dilemma": they were forced to privatize state-owned energy facilities in order to achieve decent maintenance and effective governance.²⁹⁸ Due to uncertainty, Western companies are reluctant to invest in these enterprises. In contrast, Russian energy monopolists "associated with the government are capitalizing on high prices of energy" and using their revenues to invest in key strategic sectors.²⁹⁹

²⁹² Perovic, "From Disengagement to Active Economic Competition," 2-3.

²⁹³ Baev, "Russia's Policies in the North and South Caucasus," 45.

²⁹⁴ Ibid.

²⁹⁵ Zagorski, "Russia and the Shared Neighborhood," 70.

²⁹⁶ John Roberts, "Energy Reserves, Pipeline Politics and Security Implications," in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December 2003), 100. See also Perovic, "From Disengagement to Active Economic Competition," 5.

²⁹⁷ Baev, "Russia's Policies in the North and South Caucasus," 46.

²⁹⁸ Mamuka Tsereteli, "Russian Economic Expansion in the Caucasus: A Challenge for Georgia," *Central Asia-Caucasus Analyst*, Central Asia-Caucasus Institute, SAIS, 1. (09 March 2005). Online. Available from <http://www.cacianalyst.org/> (accessed 30 January 2006).

²⁹⁹ Ibid.

In 2003, UES acquired 75 percent of the shares in the electricity distribution company Telasi from an American investor AES, which had suffered financial losses. This gave Russia control over Georgia's main power plants and Tbilisi's power grid.³⁰⁰ Some analysts saw this move as a "surrender of Georgia's energy system to UES."³⁰¹ The UES has recently expressed its desire to buy five hydropower stations in western Georgia and the largest hydropower plant on the administrative border with the breakaway region Abkhazia.³⁰² Although Georgia has significant electricity generation resources, because of poor distribution networks, huge amounts of electricity are lost in transmission. Georgia relies on supplementary imports from Armenia and Russia, but can also receive supplies from Azerbaijan and Turkey.³⁰³

UES also holds a major share in the Armenian electricity sector. In 2001, Armenia signed a ten-year plan of economic cooperation with Russia intended to achieve greater integration of the two economies and to attract Russian investment into Armenian economy, thus boosting its industrial growth.³⁰⁴ As an appendix to the economic cooperation plan, Armenia suggested a debt-for-equities scheme intended to clear Yerevan's \$100 million debt to Moscow. In 2002, the debt-for-equity deal was signed and the UES acquired four units of the Hrazdan power plant, which accounted for 20 percent of Armenia's annual electricity production.³⁰⁵ Four other largely moribund enterprises of the military-industrial complex were also handed to Russia as a part of that swap agreement.³⁰⁶ President Kocharian denied media speculation that the deal was part

³⁰⁰ "Russia/Azerbaijan: Moscow has Dual Approach to Baku," *Oxford Analytica*, 11 June 2004, 2. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006). UES currently controls 20 percent of energy generation capacity and 35 percent of energy distribution network. Perovic, "From Disengagement to Active Economic Competition," 4. These numbers, however, vary in different analyses. See Tsereteli, "Russian Economic Expansion in the Caucasus," 1.

³⁰¹ U.S. Department of Energy, Energy Information Administration (EIA), "Caucasus Region Country Analysis Brief," December 2004. Online. Available from <http://eia.doe.gov/> (accessed 15 December 2005).

³⁰² "Russian Energy Giant Wants to Privatize Georgian Power Facilities," *Civil Georgia*, 22 July 2004. Online. Available from <http://www.civil.ge/> (accessed 05 December 2005).

³⁰³ U.S. Department of Energy, (EIA), "Caucasus Region Country Analysis Brief."

³⁰⁴ Emil Danielyan, "Russia, Armenia See Closer Ties After Summit," *RFE/RL*, 15 September 2001, Online. Available from <http://www.armenialiberty.org/> (accessed 05 December 2005).

³⁰⁵ Atom Markarian, "Russia's Gazprom Against Iranian Gas Transit Through Armenia," *RFE/RL*, 21 March 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 21 March 2005).

³⁰⁶ "Armenia/Russia: Debt Deal Cements Strategic Alliance," *Oxford Analytica*, 29 November 2002, 1-2. Online. Available from Proquest <http://www.proquest.com/> (accessed 05 December 2005). See also Aleksandr Chepurin, "On Yerevan's Foreign Policy," *International Affairs*, Vol. 50, Iss. 2. (April 2004), 4.

of the Kremlin's drive to make Yerevan more dependent on Russia. He stated, "This proposal was made by ourselves. Nobody is trying to foist anything upon us."³⁰⁷ Analysts agree that the swap relieved Yerevan of a "significant and growing part of its foreign debt service" and left "Russia in the position of strategic investor," but they also noted that the agreement gave Russia significant long-term political benefits.³⁰⁸

Even before the swap deal, the Armenian energy sector was dependent on Russian nuclear fuel for its Metsamor nuclear power plant, which accounts for nearly 40 percent of Armenia's annual electricity production.³⁰⁹ The plant ran up \$32 million in debt to Russian suppliers and was unable to purchase nuclear fuel deliveries until it was placed under the five-year financial management of UES in 2003. RAO UES was also granted ownership of a cascade of six hydroelectric plants near Yerevan.³¹⁰ The chief executive of the nuclear plant, Gagik Markosian, recently maintained that "the plant has balanced its books and experienced no refueling difficulties for the first time since the 1995 reactivation."³¹¹ The move, however, placed 80 percent of Armenia's electrical generating capacity under the control of UES.³¹² Moreover, in 2005 the subsidiary of UES, Interenergo BV, purchased Electricity Networks of Armenia (ENA) from the British-registered Midland Resources Holding, which had privatized the electricity distribution network in 2002.³¹³ UES had for years unsuccessfully tried to gain control over the country's electricity grid and had been defeated in international bidding. Now, with this last purchase, the Armenian electricity sector fell under near-complete control of Russians. It is important to note that Armenia is an energy exporter; integration of its

³⁰⁷ Emil Danielyan, "Russia Tightens Grip on Debt Burden Armenia," *RFE/RL*, 17 September 2001, Online. Available from <http://www.armenialiberty.org/> (accessed 05 December 2005).

³⁰⁸ "Armenia/Russia: Debt Deal Cements Strategic Alliance," 2.

³⁰⁹ Atom Markarian, "Armenian, Russian Nuclear Experts Opposed To Metsamor Closure," *RFE/RL*, 24 October 2003, Online. Available from <http://www.armenialiberty.org/> (accessed 05 December 2005).

³¹⁰ Atom Markarian, "Russians Restore Gas Deliveries To Armenia," *RFE/RL*, 07 April 2003, Online. Available from <http://www.armenialiberty.org/> (accessed 05 December 2005).

³¹¹ Atom Markarian, "Russian Utility 'Rescued Armenian Nuclear Plant'," *RFE/RL*, 15 March 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 15 March 2005).

³¹² Armenia/Russia: Yerevan Plays Moscow Against West," 2.

³¹³ Emil Danielyan, "Russians Move to Formalize Armenian Power Grid Takeover," *RFE/RL*, 12 September 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 12 September 2005).

electricity system with that of Georgia and Azerbaijan would allow UES to effectively control the regional electricity flow and to penetrate “the power market in Iran and Turkey.”³¹⁴

In 2004, UES signed a memorandum of understanding with Azerbaijan, pledging greater investment and “expanding cooperation to penetrate the Iranian market.”³¹⁵ So far, UES has not acquired major enterprises in Azerbaijan, but has obtained Baku’s agreement for the “parallel operation” of Russian and Azerbaijani electricity systems.³¹⁶ It has signed contracts that allow transmission of electricity from Azerbaijan to Turkey and Iran. Analysts suggest that Azerbaijan’s oil and gas-related revenues give it a better bargaining position vis-à-vis Russia, allowing it to avoid debt-for-equities swaps and the sale of energy facilities that would be impossible to maintain otherwise.³¹⁷ Indeed, as Henry Hale notes, the “logic of economics” drives energy-rich states away from Russia.³¹⁸

Azerbaijan generates sufficient amounts of electricity to meet its domestic consumption. However, significant amounts are lost in transmission because of the poor distribution network. Azerbaijan, therefore, relies on supplementary imports, which come mainly from Russia and Turkey.³¹⁹ It is expected that Azerbaijan’s demand for electricity (and thus its dependence on Russian supplies) will increase slightly when the BTC pipeline starts working.³²⁰ Azerbaijan is also dependent on Russian natural gas imports, despite the large Shah Deniz gas field. The volume of gas imports have increased significantly since 2001, because oil-fired power plants have been changed to gas-fired ones.³²¹ U.S. Department of Energy analysts, however, note that Azerbaijan’s dependency on gas imports will decrease as its production increases from domestic offshore gas fields like Shah Deniz. Given its oil and gas resources and non-Russian

³¹⁴ Perovic, “From Disengagement to Active Economic Competition,” 5.

³¹⁵ “Russia/Azerbaijan: Moscow has Dual Approach to Baku,” 1.

³¹⁶ Ibid., 2.

³¹⁷ Ibid., 1.

³¹⁸ Hale, “Independence and Integration in the Caspian Basin,” 177.

³¹⁹ “Russia/Azerbaijan: Moscow has Dual Approach to Baku,” 2.

³²⁰ Ibid., 1.

³²¹ U.S. Department of Energy, (EIA), “Azerbaijan, Country Analysis Brief.”

export routes, Azerbaijan, in Ilham Aliev's words, can "reliably ensure its energy security."³²² The Baku-Tbilisi-Erzurum pipeline, scheduled to become operational in autumn 2006, will serve as a major export route for Azerbaijan's gas surplus and will help Georgia to diversify its gas supplies, thus reducing Georgia's dependence on Russian gas imports.

Table 2. Energy Statistics of the Transcaucasus Region, 2003 (From: Energy Information Administration, US Department of Energy. Available from: <http://eia.doe.gov/> (15 December 2005))

Oil			
Country	Reserves (in billion bbl/d)	Production (1,000 bbl/d)	Consumption (1,000 bbl/d)
Armenia	0.0	0.0	41.6
Azerbaijan	0.7-1.3	328.0	114.0
Georgia	0.3	2.1	40.1
Natural Gas			
	Reserves (tcf)	Production (bcf)	Consumption (bcf)
Armenia	0.0	0.0	46.6
Azerbaijan	30.0	180.0	330.0
Georgia	0.3	0.6	35.3
Electricity			
	Capacity (GW)	Generation (Bill. kwh)	Consumption (Bill. kwh)
Armenia	2.6	6.5	5.8
Azerbaijan	5.2	17.6	17.4
Georgia	4.4	6.7	6.8

The expansion of UES into Armenia and Georgia is not an isolated phenomenon; it is paralleled by the penetration of their gas markets by Russia's gas monopolist Gazprom.³²³ In 1997, in a debt-for-equity swap, Gazprom obtained a 55 percent controlling stake in Armenia's entire gas infrastructure and formed ArmRosGazprom joint venture with its U.S.-registered Itera subsidiary. Gazprom is also Armenia's

³²² "Ilham Aliev: Energetik Anvtangutyany Hartsum Voch Mekic Kakhvats Chenq" (Ilham Aliev: In Energy Security Issues We Are Not Dependent on Anybody). *RFE/RL*, 03 February 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 03 February 2006).

³²³ Perovic, "From Disengagement to Active Economic Competition," 5.

exclusive supplier of the gas, which generates nearly 40 percent of Armenia's electricity and is increasingly used for heating households.³²⁴ In 2002, Tbilisi agreed to sell 51 percent of the Tbilisi gas distribution company Tbilgazi and the chemical factory Azoti to the Gazprom's subsidiary Itera.³²⁵

In May 2003, Gazprom signed a 25-year "strategic partnership agreement" with the government of Georgia, which permitted "use of the Georgian infrastructure for transit purposes" and foresaw creation of joint ventures in Georgia's energy system.³²⁶ Analysts suggested that Gazprom has secured a right "to conclude confidential future projects with the Georgian government, possibly paving the way for debt-for-equity deals."³²⁷ Gazprom is also Georgia's single gas supplier. Recently, Gazprom has expressed its desire to buy the trunk pipeline that brings gas to Georgia and Armenia, but Tbilisi has not yet decided on the issue.³²⁸

Acquisition of energy enterprises under the debt-for-equity deals in Georgia and Armenia seem disadvantageous for Russia, because most of the facilities are in disrepair and require large investments. However, it is beyond doubt that control over these facilities gives Moscow potential leverage over political developments in South Caucasus. As Mamuka Tsereteli writes,

This is not only a perceived, but a real threat. The Russian government has a recorded history of using energy dependence as a tool for political pressure. That was the case in the Baltics, when Estonia, Latvia and Lithuania demanded the withdrawal of Russian troops in 1992. That was the case in Ukraine, where pressure was used for economic reasons. That was the case in Georgia in 2000-2001, when Moscow demanded support for the war in Chechnya and adjustments in Georgia's western-oriented foreign policy.³²⁹

³²⁴ Emil Danielyan, "No Progress Reported on Iran-Armenia Gas Pipeline," *RFE/RL*, 12 December 2002, Online. Available from <http://www.armenialiberty.org/> (accessed 05 September 2005).

³²⁵ Perovic, "From Disengagement to Active Economic Competition," 5.

³²⁶ "Georgia-Gazprom Deal Signed," *Civil Georgia*. 25 July 2003. Online. Available from <http://www.civil.ge/> (accessed 05 December 2005).

³²⁷ Perovic, "From Disengagement to Active Economic Competition," 5.

³²⁸ "PM: Privatization of Trunk Pipeline Ruled Out," *Civil Georgia*. 26 April 2005. Online. Available from <http://www.civil.ge/> (accessed 05 December 2005).

³²⁹ Tsereteli, "Russian Economic Expansion in the Caucasus: A Challenge for Georgia," 1.

More recently, Russia announced that it is doubling the price of gas for the Transcaucasian countries starting in January 2006. The Georgian authorities responded by claiming that Russia's decision to increase gas price was politically motivated. In an article in the *Washington Post*, Saakashvili wrote that "manipulation of energy prices and supplies is a critical tool of those in Russia who believe that hydrocarbons are the best means of political influence."³³⁰ Saakashvili also announced that the decision to double the price of gas during the winter season, when supplies are critically needed, was calculated to provoke unrest and the overthrow of the government in Georgia.³³¹ Russian-Georgian relations deteriorated even more after a series of explosions in Russia's North Ossetia and Karachaevo-Cherkessia that cut gas supplies to Georgia and Armenia and the delivery of electricity from Russia to Georgia.³³² Saakashvili immediately accused Moscow of blackmailing Georgia over the trunk gas pipeline, calling Russia "an unprincipled blackmailer."³³³

The decision to increase gas prices also fueled anti-Russian sentiment in Armenia, where authorities spoke of the need to reconsider aspects of Russian-Armenian energy cooperation. Armenia's Foreign Minister Oskanian announced that the move was "politically motivated and could damage close ties binding the two nations."³³⁴ The Chairman of Armenia's National Assembly, Artur Baghdasaryan, went so far as to suggest that Yerevan should consider demanding financial compensation for the presence of Russian troops in Armenia.³³⁵ Interestingly, Gazprom announced that Armenia will be charged the same price as other Southern Caucasian states if Armenia does not agree to give the UES control over a major thermal power plant in Hrazdan and the right to use

³³⁰ Mikheil Saakashvili, "The Path to Energy Security," *The Washington Post*, (09 January 2006), 20. Online. Available from <http://www.washingtonpost.com/> (accessed 09 January 2006).

³³¹ "Saakashvili: Rusastanha Energoshantazh eh Kirarum Vrastani Nkatmamb," (Russia Uses Energy Blackmail Against Georgia). *RFE/RL*, 20 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 20 January 2006).

³³² "Russia Accused of Sabotaging Georgia," *Civil Georgia*. 22 January 2006. Online. Available from <http://www.civil.ge/> (accessed 22 January 2006).

³³³ "Saakashvili Reiterates a Tough Stance on Russia," *Civil Georgia*. 22 January 2006. Online. Available from <http://www.civil.ge/> (accessed 22 January 2006).

³³⁴ Emil Danielyan, "Oskanian Sees Political Reasons for Surge in Russian Gas Price," *RFE/RL*, 26 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 26 December 2005).

³³⁵ Astghik Bedevian, "Armenian Speaker Warns Russia Over Gas Price Hike," *RFE/RL*, 23 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 23 December 2005).

the gas pipeline that is projected to bring Iranian gas to Armenia in 2007.³³⁶ The Armenian leadership, however, firmly rejected the idea of giving additional assets to Russians. The negotiations have so far yielded no results, except that Russia has agreed to delay the price hike until April of 2006.³³⁷

Russia is thought “to be uneasy about the project” of Iranian gas pipeline.³³⁸ There were speculations in the media about possibility for the pipeline to be linked in the future with Ukraine and the European network via Georgia. The reports suggested that Moscow was strongly opposed to the idea, seeing it as a threat to its geo-economic policies.³³⁹ It is believed that Russia insisted that the future pipeline have a small diameter to prevent Iranian gas from exporting to third countries.³⁴⁰



Figure 1. Existing and Projected Pipelines in the Transcaucasus (From: US Department of Energy, Energy Information Administration, *Russia Energy Survey*, 2002. Available from: <http://eia.doe.gov/> (accessed 15 December 2005))

³³⁶ Karine Kalantarian, “Yerevan Signals Frustration with Russian Stance on Gas Price,” *RFE/RL*, 24 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 24 January 2006).

³³⁷ Atom Markarian, “Government Downplays Economic Cost of Russian Gas Price Hike,” *RFE/RL*, 10 February 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 10 February 2006).

³³⁸ Aza Babayan, “Russian Gas Giant Admits Interest in Armenian Power Plant,” *RFE/RL*, 17 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 17 January 2006).

³³⁹ Atom Markarian, “Russia to Double Gas Price for Armenia,” *RFE/RL*, 30 November 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 30 November 2005).

³⁴⁰ Atom Markarian, “Russia’s Gazprom Against Iranian Gas Transit through Armenia,” *RFE/RL*, 21 March 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 21 March 2005).

Access to Iranian gas will ease Armenia's dependence on Russia for energy resources and will significantly increase Armenia's energy security. The pipeline would also allow Armenia to import Turkmen gas through Iran.³⁴¹ Experts believe that Armenian-Iranian gas pipeline would sever one of the most important ties between Armenia and Russia.³⁴²

Armenian leadership has been wary, lest its energy cooperation with Iran places them at odds with Washington, which views Iran as a state harboring terrorists and an "enemy of freedom, justice, and peace."³⁴³ Importantly, the U.S. officials have "indicated that Washington does not object to the Armenian-Iranian energy projects, because they do not violate U.S. sanctions against Tehran."³⁴⁴ Recently, the U.S. Ambassador to Armenia, John Evans, stated that "[t]he United States is very sympathetic to Armenia's energy situation and to Armenia's efforts to diversify sources of energy."³⁴⁵

How do the interests of the United States interact with Russia's policies in the region? What are those interests and how are they linked with strategic environment of regional countries? Following chapter attempts to answer these questions. It starts with examination of U.S. interests and evolution of U.S. policy towards the South Caucasus. It also attempts to shed a light on areas of geopolitical cooperation and competition between Russia and the United States.

³⁴¹ Hrach Melkumian, "Armenia, Iran to Again Discuss Pipeline," *RFE/RL*, 09 December 2002, Online. Available from <http://www.armenialiberty.org/> (accessed 16 December 2005).

³⁴² Catherine Hunter, "Armenia and Iran Sign Gas Pipeline and Long-Term Supply Agreement," *World Market Analysis*, 14 May 2004, 1-2. Online. Available from *LexisNexis* <http://www.nexis.com> (accessed 30 January 2006).

³⁴³ U.S. President, *National Security Strategy of the United States of America*, The White House. March 2006, 9-12. Online. Available from <http://www.whitehouse.gov/nsc/nss/2006/nss2006.pdf> (accessed 15 March 2006).

³⁴⁴ Emil Danielyan, "Armenia, Iran Stress 'Regional Significance' of Bilateral Ties," *RFE/RL*, 14 February 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 14 February 2006).

³⁴⁵ Karine Kalantarian and Emil Danielyan, "U.S. Not Worried About Armenian-Iranian Ties," *RFE/RL*, 3 February 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 03 February 2006).

IV. U.S. POLICY TOWARDS THE SOUTH CAUCASUS

The dissolution of the Soviet Union at the end of 1991 left a daunting power vacuum in the Southern Tier. Initially, the U.S. had no proactive policy towards the region. American strategists felt that with its global responsibilities, the U.S. had limited resources to “suggest an American or any other Western presence” to fill the security vacuum.³⁴⁶ Some analysts argued that developments in the Transcaucasus are largely marginal to U.S. interests and called for adopting a cautious policy line to prevent U.S. involvement in a “region beset by ethnic and civil conflicts.”³⁴⁷ As one analyst notes, “not being present historically and geographically, the United States does not share those same risks, the consequences of which could be paid for by the countries of the region and even Europe.”³⁴⁸

According to Hunter, in the early 1990s, the Southern Caucasian countries held almost no intrinsic value for the United States; instead, what most mattered for the U.S. was the impact of regional developments on Russia, Turkey, and the Middle East.³⁴⁹ The U.S. at the time chose to respect the Russian notion of the Transcaucasus falling within Russia’s sphere of influence. It preferred Russian domination of the region (with modest U.S. interests) over an unpredictable and volatile situation loaded with the risk of confrontation between ambitious regional players.³⁵⁰ U.S. policy towards the region, however, has changed considerably over time, becoming more pronounced and activist, while still remaining “uncoordinated and often contradictory.”³⁵¹ The evolution of U.S. policy towards the Transcaucasus has gone through three major phases: the period of

³⁴⁶ Rouben Paul Adalian, “Armenia’s Foreign Policy,” in *The Making of Foreign Policy in Russia and the New States of Eurasia*, ed. Adeed Dawisha and Karen Dawisha (New York: M. E. Sharpe, 1995), 321.

³⁴⁷ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 2.

³⁴⁸ C. W. Blandy, *The Caspian: Commminatory Crosscurrents*, United Kingdom Defence Academy, Conflict Studies Research Centre, Special Series. Document S40, January 1999, 15. Online. Available from <http://www.da.mod.uk/CSRC/documents/Special/S40/> (accessed 30 January 2006).

³⁴⁹ Hunter, *The Transcaucasus in Transition*, 159.

³⁵⁰ Cornell, *Small Nations and Great Powers*, 366.

³⁵¹ Brenda Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December 2003), 53.

deference to Russia's regional dominance from 1991-1994, cautious activism in 1994-1999, and the current period of strategic engagement in the region.³⁵²

A. EVOLUTION OF U.S. FOREIGN POLICY TOWARDS THE SOUTH CAUCASUS

1. 1991-1994

U.S. policy towards the Transcaucasus during this period was "Russo-centric and Russia-first in character," which meant, given preoccupation with Russia's future and support for Yeltsin's regime, refraining from criticism of Moscow's regional policies lest such criticism weaken Yeltsin's authority.³⁵³ The main U.S. concern at the time was to encourage Russia's transition to democracy and a market economy, as well as to achieve denuclearization of Ukraine, Belarus and Kazakhstan in line with the horizontal non-proliferation policy promoted by Washington.³⁵⁴ Not surprisingly, one analyst has described American policy of the time as "Russia plus branch offices."³⁵⁵

The United States, however, established some "basic working guidelines," which included recognizing the Soviet successor states as independent entities, facilitating their democratic transition and integration into international organizations, as well as supporting the development of market economies and cooperative regional arrangements.³⁵⁶ The U.S. was also interested in containing the Iranian influence in the Transcaucasus and preventing regional states from gravitating into its orbit.³⁵⁷ Another important component of U.S. policy was gaining access to energy resources of Azerbaijan and supporting export routes that would not cross Russian or Iranian territory.³⁵⁸ Beyond these "modest policy objectives," however, the U.S. did not have active interests and a clearly defined policy towards the Transcaucasus.³⁵⁹

³⁵² Shaffer, "US Policy," in *The South Caucasus*, 53.

³⁵³ Hunter, *The Transcaucasus in Transition*, 158.

³⁵⁴ See James M. Goldgeier and Michael McFaul, *Power and Purpose: US Policy toward Russia after the Cold War* (Washington DC: Brookings Institution Press, 2003), 41-58.

³⁵⁵ Hunter, *The Transcaucasus in Transition*, 158.

³⁵⁶ Cornell, *Small Nations and Great Powers*, 367.

³⁵⁷ Masih and Krikorian, *Armenia: At the Crossroads*, 110.

³⁵⁸ Hunter, *The Transcaucasus in Transition*, 159.

³⁵⁹ Cornell, *Small Nations and Great Powers*, 367.

By the end of 1991, the U.S. had recognized the independence of all the Soviet successor states, including the Southern Caucasian countries of Armenia, Azerbaijan, and Georgia.³⁶⁰ The U.S. pursued close relations with Armenia, partly due to the country's democratic progress, but also because of the influence of the Armenian-American lobby, whose activities focused mainly on the U.S. Congress.³⁶¹ Levon Ter-Petrosian, elected Armenia's President in October 1991, paid his first visit to the U.S. to "communicate his pro-Western policies in an obvious gesture of breaking with Moscow."³⁶² This "assertive foreign policy by a country far down the totem pole presented a puzzlement to the Bush Administration" and the symbolism of the meeting aside, it "did not go far in bolstering Armenia."³⁶³ At the time, Georgia's Gamsakhurdia had led his country into international isolation and internal conflict, and apparatchik Mutalibov still remained in power in Azerbaijan.³⁶⁴ The U.S., however, pursued closer ties with Tbilisi once Shevardnadze—a pro-Western Soviet foreign minister during the late 1990s—came to power in Georgia in early 1992.³⁶⁵

In this period, the United States promoted Turkey as the principal regional power and a "model of economic and political development" for the regional countries, supporting Turkish attempts at reordering the Transcaucasus.³⁶⁶ Because the U.S. was unwilling to commit its resources and to provide security assistance to the regional countries, it chose to advance the role of Turkey as its "proxy security guarantor."³⁶⁷ United States policy was driven by fear of Islamic radicalism and by animosity toward Iran, whose influence in the power vacuum of the Southern Tier, in view of American strategists, could be balanced by Turkey's strong role.³⁶⁸ As noted above, "excessive aggrandizement of the Turkish role" in the region was seen as a major security threat in

³⁶⁰ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 1.

³⁶¹ Cornell, *Small Nations and Great Powers*, 368.

³⁶² Adalian, "Armenia's Foreign Policy," 322.

³⁶³ Ibid.

³⁶⁴ Cornell, *Small Nations and Great Powers*, 368.

³⁶⁵ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 2.

³⁶⁶ Hunter, *The Transcaucasus in Transition*, 159.

³⁶⁷ Adalian, "Armenia's Foreign Policy," 321.

³⁶⁸ Masih and Krikorian, *Armenia: At the Crossroads*, 110.

the neighboring country of Armenia.³⁶⁹ As Adalian remarks, this “policy only highlighted Armenia’s potential isolation and encirclement at a time when it already faced serious complications with both Azerbaijan and Turkey.”³⁷⁰

Turkey, which was “expected to play the role of moderate power, in a word, hijacked Western policy toward Armenia,” aligning with Azerbaijan in early 1992 and “compounding the severity of the crisis in the region.”³⁷¹ In February 1992, huge anti-Armenian demonstrations were held in Turkey, with hundreds of thousands of Turks calling for intervention on behalf of Azerbaijan.³⁷² At the time the Turkish President Turgut Özal went so far as to openly threaten Armenia, announcing on several occasions that Armenians “should be frightened a little.”³⁷³ The Turko-centrism of U.S. policy, which was not “so fine tuned as to factor in every nuance arising from the specific [regional] conditions,” appeared to validate “what the Russians had always found convenient to reinforce: Armenian insecurity about Turkey’s ambitions and the potential consequences these presented in light of their past experience.”³⁷⁴ As Adalian writes, the result was that “Armenia, a pro-Western democracy, was slowly alienated from the West by the presumed defender of Western interests in the region” and began to seek Russia as a guarantor of its security and a balancing force against Turkey.³⁷⁵ Unfortunately, U.S. efforts to make Turkey change its unfriendly policies towards Armenia were ineffective and have remained largely fruitless.³⁷⁶

It should be noted that because of incompatible Russian and Turkish ambitions in the region, the Turko-centric policy was in contradiction with Russo-centrism of American strategists. The U.S. policymakers soon realized that with Turkey trying to take advantage of Russia’s temporary withdrawal, the volatile situation posed risks of Russo-

³⁶⁹ Hunter, *The Transcaucasus in Transition*, 160.

³⁷⁰ Adalian, “Armenia’s Foreign Policy,” 321.

³⁷¹ *Ibid.*, 332.

³⁷² Svante E. Cornell, “Turkey and the Conflict in Nagorno Karabakh: A delicate balance,” *Middle Eastern Series*, Vol. 34, Iss. 1 (January 1998), 9.

³⁷³ *Ibid.*, 9.

³⁷⁴ Adalian, “Armenia’s Foreign Policy,” 321.

³⁷⁵ *Ibid.*, 332.

³⁷⁶ See “Ankara Refuses U.S. Call to Open Armenian Border,” *Arminfo News Agency*. 20 March 2006. Online. Available from http://www.arminfo.info/news_200306_3.shtml (accessed 20 March 2006).

Turkish confrontation at exactly the time when the U.S. was actively supporting Yeltsin's pro-Western regime to "prevent the country from slipping into aggressive authoritarianism and xenophobia."³⁷⁷ Such concerns, coupled with animosity toward Iran and "exaggerated fear" of Islamic radicalism, drove U.S. policymakers to see the return of Russian domination as the "least of several evils."³⁷⁸

At the same time, containing interethnic conflicts or helping with democratization in the region became lesser priorities for the U.S.³⁷⁹ For instance, the United States did little to help Shevardnadze in his struggle against Moscow and it did not warn Russia against intervening in Georgia's civil war. Similarly, Russia's reestablishment of its influence in Azerbaijan and ousting of pro-Turkish nationalist President Elchibey were accepted in the U.S. as *fait accompli*.³⁸⁰ By the end of 1993, however, Russia's policy of aggressive reintegration led some policymakers in the U.S. to gradually reconsider the Russo-centric policy and favor a greater focus on individual states. However, as Hunter notes, the shift was not pronounced and it did not "dramatically affect the course of events" in the region.³⁸¹

During this period, foreign policy interest groups, notably the Armenian-American community, played an important role in focusing U.S. attention on the Nagorno-Karabakh (NK) conflict.³⁸² In 1992, the conflict had already escalated into a full-scale war by Azerbaijan against the majority Armenian population of the Nagorno-Karabakh autonomous oblast (NKAO), who had initiated a process of independence, held

³⁷⁷ Cornell, *Small Nations and Great Powers*, 372.

³⁷⁸ Ibid., 159.

³⁷⁹ Ibid., 159-160.

³⁸⁰ Ibid., 160.

³⁸¹ Ibid., 161.

³⁸² The political power of the Armenian-American lobby rests on its multi-tiered structure, good access to Congress, and specific domestic electoral reasons (including high rates of Armenian-American political activism and favorable representation in the important state of California). The influence of the Armenian-American lobby also depends on the relative strength of opposing groups, such as pro-Turkish and petro-diplomatic, pro-Azerbaijani lobbies, which have over time become more united and politically active. See Goldgeier and McFaul, *Power and Purpose: US Policy toward Russia after the Cold War*, 118.

a referendum consistent with existing Soviet laws and procedures, and, in December 1991, obtained an overwhelming mandate for independence.³⁸³ As Nichol writes,

Congressional concerns about the NK conflict led to the inclusion of Section 907 in the FREEDOM [Freedom for Russia and Emerging Eurasian Democracies and Open Markets] Support Act, which prohibits U.S. government-to-government assistance to Azerbaijan, except for non-proliferation and disarmament activities, until the President determines that Azerbaijan has taken “demonstrable steps to cease all blockades and other offensive uses of force against Armenia and NK.”³⁸⁴

According to Shaffer, Section 907 of the Freedom Support Act became “a major constraint on U.S. policy options towards the region.”³⁸⁵ Importantly, it also limited U.S. security cooperation with Armenia, because of U.S. policy of parity in military transfers and security ties with Armenia and Azerbaijan.³⁸⁶ U.S. policy towards Azerbaijan, however, soon changed towards greater cooperative engagement—initially led by the interests of major American oil companies.

2. 1994-1999

As Cornell writes, during the second half of the 1990s, private American interests, which in many respects matched those of Baku, started to “make a difference in Washington.”³⁸⁷ In 1994, Heidar Aliyev started re-negotiating the former government’s oil deals, which had collapsed after the ousting of President Elchibey.³⁸⁸ Cornell says,

Aliyev’s consistent policy . . . [was] to try to attract as many foreign powers as possible into the politics of oil, thereby bringing about a vested interest in these countries in supporting Aliyev’s regime—and, by extension, displaying a more positive attitude toward Azerbaijan and its position in the Nagorno-Karabakh conflict.³⁸⁹

³⁸³ Shahan Avakian, *Nagorno-Karabakh: Legal Aspects* (French University of Armenia, 2005), 13. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 16 April 2005).

³⁸⁴ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 2.

³⁸⁵ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 54.

³⁸⁶ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

³⁸⁷ Cornell, *Small Nations and Great Powers*, 366.

³⁸⁸ Masih and Krikorian, *Armenia: At the Crossroads*, 110.

³⁸⁹ Cornell, *Small Nations and Great Powers*, 372-373.

In September 1994, an eight billion dollar contract, the “deal of the century,” was signed with a consortium of Western companies.³⁹⁰ The agreement established the AIOC, in which 40 percent of the shares were held by American oil companies.³⁹¹ With the deal signed, the “Texas Oil interests” began using their lobbying mechanisms in Washington to influence U.S. policy “to further Azerbaijan’s interests, and thereby their own interests” in the Transcaucasus.³⁹² The oil lobby came to counterbalance Armenian-American influence in the Congress, because the oil lobby’s support of Azerbaijani attempts at removing or easing Section 907 could make American oil companies eligible for U.S. government’s financial assistance. Shaffer writes, “in this period one witnessed a plethora of congressional testimonies and major public statements” that emphasized the importance of Caspian energy resources and the need for rapprochement with Azerbaijan, a country increasingly viewed as a major producer and a transit route for the East-West energy corridor.³⁹³ Although Congress did not remove the Section 907 prohibition, legislative provisions for fiscal years 1996, 1998 and 1999 eased the prohibition by allowing for “humanitarian, democratization, and business aid exemptions.”³⁹⁴

In this period, Washington intensified its efforts at promoting U.S. economic and strategic interests in the Transcaucasus, “following the lead given by major U.S. corporations.”³⁹⁵ The Transcaucasus and Central Asia were declared “a strategic vital region” where the developments “matter[ed] profoundly to the U.S.”³⁹⁶ Caspian energy development, which was consistent with U.S. energy policy of lessening dependence on Persian Gulf oil, became an increasing concern of the Clinton administration.³⁹⁷ The extensive U.S. interest in Caspian energy resources was expressly stated in National

³⁹⁰ Masih and Krikorian, *Armenia: At the Crossroads*, 111.

³⁹¹ Cornell, *Small Nations and Great Powers*, 372.

³⁹² Ibid.

³⁹³ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 56.

³⁹⁴ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 2.

³⁹⁵ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 55.

³⁹⁶ Cornell, *Small Nations and Great Powers*, 376.

³⁹⁷ Ibid., 374.

Security Strategy Reports prepared by the Clinton administration in 1997 and 1998.³⁹⁸ Stephen Sestanovich, Ambassador at large and Special Advisor to Secretary of State for the Newly Independent States, officially announced that “energy development and the creation of an East-West energy transport corridor” were among important U.S. foreign policy goals in the Transcaucasus and Central Asia.³⁹⁹ At the same time, the administration started promoting the BTC pipeline as part of that energy corridor.⁴⁰⁰ In 1998, a position of Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy was introduced, and in 1999 political and economic support was obtained for construction of BTC pipeline.⁴⁰¹

It is important to note that in the last decade the consumption of oil in the U.S. has almost doubled, making the country more dependent on oil-exporting small states of the Persian Gulf, Africa and South America. The United States has complicated relations with many of these states, and a secure supply is often threatened by regional instability and petro-terrorism, which often cause oil shortages and, therefore, its price hikes. The United States, a global superpower with unmatched military strength and economic and political influence, is sensitive to oil price rises, which can have internal political and economic implications.⁴⁰² Therefore, from a neoliberal institutionalist perspective, it is logical to expect that the U.S. would pursue Caspian energy resources to diversify its supplies and to mitigate effects of possible external changes.

As Olikier notes, “the United States itself is unlikely to become a customer for the Caspian oil or gas.”⁴⁰³ According to Shaffer, the U.S. views Azerbaijani oil “as a contributor to global oil supply diversification” and “as oil in the margins,” a tool to affect world oil prices.⁴⁰⁴ However, this is not to suggest that oil interests were the main

³⁹⁸ U.S. President, *National Security Strategy for a New Century*, The White House, May 1997, 27-28. Online. Available from <http://www.fas.org/man/docs/strategy97.htm> (accessed 15 December 2005). See also U.S. President, *A National Security Strategy for a New Century*, The White House, October 1998, 32.

³⁹⁹ Cornell, *Small Nations and Great Powers*, 379.

⁴⁰⁰ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 14.

⁴⁰¹ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 55.

⁴⁰² Keohane and Nye, *Power and Interdependence*, 12-18.

⁴⁰³ Olikier, “Conflict in Central Asia and South Caucasus,” 221.

⁴⁰⁴ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 53.

factor behind the U.S. administration's adoption of a more assertive policy towards the region and its rapprochement with Azerbaijan. American economic interests and the role of the oil factor have often been overestimated by many analysts.⁴⁰⁵ Moreover, despite much speculation regarding Azerbaijan's "huge" oil reserves, it appears that much of the oil is concentrated in the northeastern part of the Caspian Sea.⁴⁰⁶ In its official rhetoric, however, the U.S. has long insisted on high-end estimates of Azerbaijani and Caspian oil reserves, arguably using the oil issue as a reason for activist involvement in the region.⁴⁰⁷

As Blank notes, Washington's interests in the regional economy do not take precedence over America's larger geo-strategic goals.⁴⁰⁸ The Transcaucasus, due to its location, is viewed by American strategists as a strategically important region that can serve as a gateway to the Central Asian states of the Caspian basin. In the context of larger U.S. policy, supporting westward pipelines that bypass Iran and Russia is an important prerequisite for strengthening the independence of Central Asian and Transcaucasian small states, a step toward creating "the cooperative Eurasia that would be the base for future world politics."⁴⁰⁹ This approach has also been reflected in statements by U.S. officials. In April 1998, Stephen Sestanovich stated,

We cannot and should not look at Caspian energy policy in isolation from our overall goals for the region. Our promotion of an economically viable East-West Eurasian transport corridor to bring Caspian energy resources to international markets is part of a larger strategy that supports peace and stability, democracy and respect for human rights, market economic reform and development, openness toward the United States and to U.S. business, and the region's integration into Euro-Atlantic and global institutions.⁴¹⁰

Congruent with its general regional policy, Washington also tried to improve its political and security cooperation with Southern Caucasian countries. In 1996, the U.S.

⁴⁰⁵ See Jones, "Introduction," in *Crossroads and Conflict*, 18.

⁴⁰⁶ Blandy, *The Caspian: Commnatory Crosscurrents*, 18-20.

⁴⁰⁷ Cornell, *Small Nations and Great Powers*, 384.

⁴⁰⁸ Stephen Blank, *US Military Engagement with Transcaucasia and Central Asia* (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, 2000), 5. Online. Available from <http://www.strategicstudiesinstitute.army.mil> (accessed 02 February 2005).

⁴⁰⁹ Cornell, *Small Nations and Great Powers*, 387-388.

⁴¹⁰ Quoted in Cornell, *Small Nations and Great Powers*, 384.

welcomed the establishment of pro-Western GUAM grouping.⁴¹¹ In 1997, the U.S. activated its efforts at facilitating the resolution of the Nagorno-Karabakh conflict, becoming a co-chair, along with France and Russia, of the OSCE Minsk Group.⁴¹² On a number of occasions Washington also openly condemned Russia's "heavy-handed treatment of Georgia."⁴¹³ Although conflict resolution efforts remained limited and unsuccessful, they are a significant departure from the previous policy of deference to Russian regional hegemony.

3. Current U.S. Policy

The Bush Administration gave new vigor to America's regional diplomacy, hosting intensive talks on the Nagorno-Karabakh dispute in early 2001, in Key West, Florida. The sides were indeed close to reaching a peace agreement, but Aliiev's concessions on Nagorno-Karabakh's status produced strong opposition among the Azerbaijani elite and the peace settlement once again went into a deadlock.⁴¹⁴ However, with such "high-level U.S. commitment" to the Nagorno-Karabakh peace negotiations, Washington signaled the start of an even more activist policy towards the Transcaucasus.⁴¹⁵ Although the U.S. continued its policy of helping the Southern Caucasian states to minimize their dependency on Moscow, it remained "wary of unequivocally placing itself in opposition to Russia in the region."⁴¹⁶ As Shaffer writes, in this period, Washington has tended to work cooperatively with Moscow, and "this has had a very positive impact on their ability to cooperate in policies and conflict resolution efforts in the South Caucasus."⁴¹⁷

Since September 11, 2001, U.S. policy towards the region has changed dramatically, because the Caspian basin and the Transcaucasus have acquired paramount

⁴¹¹ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 56.

⁴¹² See de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 258-261. The Minsk Group was created in 1992 by the Conference on Security and Cooperation in Europe (CSCE, which in 1995 became a full-fledged Organization—the OSCE) to encourage a peaceful resolution of Nagorno-Karabakh conflict.

⁴¹³ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 56.

⁴¹⁴ de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 266-268.

⁴¹⁵ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 56.

⁴¹⁶ Oliker, "Conflict in Central Asia and South Caucasus," 221-222.

⁴¹⁷ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 57.

importance in strategic and security terms. Indeed, the terrorist attacks demonstrated that geographically distant regions, where the U.S. interests were thought in terms of “nice-to-haves,” could have a profound impact on U.S. immediate interests.⁴¹⁸ For instance, if the Transcaucasus became a terrorist haven, it would pose immediate security threats, and would render exploitation of Caspian energy resources impossible, thus jeopardizing America’s larger geo-strategic interests in the region.⁴¹⁹ It is therefore not surprising that American strategists now view U.S. regional policy as an important element of the Global War on Terrorism and they link the South Caucasus with Central Asia in an integrated security complex.⁴²⁰ As General James Jones, head of U.S. European Command (EUCOM), stated in his testimony to the Senate Armed Services Committee in March 2005,

[T]he Caucasus is increasingly important to our interests. Its air corridor has become a crucial lifeline between coalition forces in Afghanistan and our bases in Europe. Caspian oil carried through the Caucasus, may constitute as much as 25 percent of the world’s growth in oil production over the next five years . . . This region is a geographical pivot point in the spread of democracy and free market economies to the states of Central and Southwest Asia.⁴²¹

For the United States, Russia is at the core of the integrated regional security complex. Importantly, following the 9/11 terrorist attacks, Moscow emerged early as one of Washington’s “staunchest” partners in the fight against terrorism.⁴²² Ignoring the opposition of his closest military advisors and the Russian political elite, President Putin offered immediate assistance to the United States.⁴²³ As Goldman writes, Putin’s acquiescence to the stationing of U.S. and NATO troops in Central Asian former Soviet republics was a dramatic reversal of Moscow’s previous policy of resisting U.S. influence in the region.⁴²⁴ Interestingly, the 2002 U.S. National Security Strategy Report stated that

⁴¹⁸ Olikier, “Conflict in Central Asia and South Caucasus,” 220.

⁴¹⁹ Ibid., 223.

⁴²⁰ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 57.

⁴²¹ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 12.

⁴²² O. Smolansky, “Ukraine and Russia: An Evolving Marriage of Inconvenience.” *Orbis*. (Winter 2004), 130. See also Ekaterina Stepanova, “War and Peace Building,” *The Washington Quarterly*, Vol. 24, No. 4 (Autumn 2004), 127-135.

⁴²³ Kipp, “War Scare in the Caucasus,” 251-252.

⁴²⁴ Goldman, *CRS Issue Brief for Congress: Russia*, 10.

[R]ecent developments have encouraged our hope that a truly global consensus about basic principles is slowly taking shape. With Russia, we are already building a new strategic relationship based on a central reality of the twenty-first century: the United States and Russia are no longer strategic adversaries . . . At the same time, we are realistic about the differences that still divide us from Russia and about the time and effort it will take to build an enduring strategic partnership.⁴²⁵

Analysts have argued that Moscow's policy shift was motivated by the need to realize Russia's objectives in foreign and domestic affairs.⁴²⁶ They argue that sustaining cooperation between Washington and Moscow will largely "depend on the extent to which they continue to perceive their interests as shared."⁴²⁷ Recently, Russian officials have called for establishing deadlines for the withdrawal of U.S. and NATO troops from Central Asia.⁴²⁸ Additionally, U.S. and Russian interests have clashed over a number of issues, including the Anti-Ballistic Missile (ABM) Treaty, strategic arms reductions, the U.S.-led war in Iraq, and Russia's nuclear cooperation with Iran.⁴²⁹ However, analysts note that despite such tensions, Washington and Moscow seem "determined to preserve the cooperative relationship they built following the September 11 attacks."⁴³⁰ As the Commission on America's National Interests and Russia writes,

The combination of Russia's size and strategic location; its relationships with, intelligence about and access to key countries; its arsenal of nuclear and other weapons and technologies; its enormous energy resources; and its ability to facilitate or block action by the United Nations Security Council places Moscow among America's most important potential partners. Fortunately, the interests America and Russia share greatly outweigh the interests that divide . . . [them].⁴³¹

⁴²⁵ U.S. President, *National Security Strategy of the United States of America*, The White House. September 2002, 26-27. Online. Available from <http://www.whitehouse.gov/nsc/nss.pdf> (accessed 15 December 2005).

⁴²⁶ de Haas, "The Development of Russia's Security Policy," 12.

⁴²⁷ Olikier, "Conflict in Central Asia and South Caucasus," 224.

⁴²⁸ Goldman, *CRS Issue Brief for Congress: Russia*, 10.

⁴²⁹ Ibid., 3, 15.

⁴³⁰ Ibid., 10.

⁴³¹ The Commission on America's National Interests and Russia, *Advancing American Interests and the U.S.-Russian Relationship*, Interim Report, 2003, 4-9. Online. Available from http://bcsia.ksg.harvard.edu/BCSIA_content/documents/Advancing_American_Interests.pdf (accessed 01 February 2005).

According to Zagorski, the dialogue established between the U.S. and Russia “ensures that tensions can be attenuated on the basis of compromise.”⁴³² Washington and Moscow cooperate in the region through “the Caucasus and Central Asia subgroup of the U.S.-Russia Working Group on Counterterrorism.”⁴³³ Moreover, it is well known that the U.S. and Russian governments today belong to multiple international regimes and are connected through several “vital strategic interests.”⁴³⁴ From the neoliberal perspective, “linking clusters of issues to one another” within the regimes, and the regimes themselves in the networks, induces cooperation and facilitates intergovernmental agreements.⁴³⁵ As Keohane writes, regimes enforce principles of reciprocity, reduce uncertainty and discourage pursuit of myopic self-interest because of the prospects of retaliatory linkages.⁴³⁶ Importantly, US strategists note that “failure to seek areas of compromise with Russia . . . [on regional policies] will make it more difficult for the United States to pursue and attain its goals in the region.”⁴³⁷

According to Blank, the “U.S. and NATO partnerships with Russia offer an enormous opportunity to shape and transform the security environment throughout the former Soviet Union.”⁴³⁸ Most important, the unprecedented cooperation between Washington and Moscow in the fight against terrorism and, in the words of the U.S. Secretary of State Condoleezza Rice, “probably the best [U.S.-Russian bilateral] relations in a long time,”⁴³⁹ provide new opportunities for small states that benefit from convergence rather than conflict of great power interests in the region. As Perovic writes,

⁴³² Zagorski, “Russia and the Shared Neighborhood,” in *What Russia Sees*, 72.

⁴³³ Elizabeth Wishnick, *Strategic Consequences of the Iraq War: US Security Interests in Central Asia Reassessed* (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, May 2004), 24-25. Online. Available from <http://www.strategicstudiesinstitute.army.mil> (accessed 01 February 2005).

⁴³⁴ Dov Lynch, “The EU; Towards a Strategy,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December 2003), 176.

⁴³⁵ Keohane, *After Hegemony*, 91-103.

⁴³⁶ *Ibid.*, 104.

⁴³⁷ Olikier, “Conflict in Central Asia and South Caucasus,” 198-199.

⁴³⁸ Stephen Blank, *The Future of Transcaspian Security* (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, August 2002), 1. Online. Available from <http://www.strategicstudiesinstitute.army.mil> (accessed 01 February 2005).

⁴³⁹ Rice Condoleezza, US Secretary of State. Quoted in Peter Baker, “Russian Relations Under Scrutiny: U.S. Concerned About G-8 Talks With Putin as Host,” *The Washington Post*, February 26, 2006, A01. Online. Available from <http://www.washingtonpost.com/> (accessed 26 February 2006).

“[t]he fate of the South Caucasus . . . is, in important ways, bound to the dynamics of relations” between Russia and the United States.⁴⁴⁰ Analysts believe that coordinated policies of Washington and Moscow can lead to a greater stability, development, and conflict resolution in the region—a “Great Gain”⁴⁴¹ scenario instead of a confrontational “new Great Game.”⁴⁴² Importantly, U.S.-Russian effective cooperation will depend on Russia’s respect of “the values of freedom and democracy at home” and their non-hindrance in the regions of vital interest to the United States: “the broader Middle East, South and Central Asia, and East Asia.”⁴⁴³

The U.S. has a number of peripheral interests in the Transcaucasus, but security, human rights, and economic interests dominate the current U.S. agenda towards the Transcaucasus.

B. SECURITY INTERESTS

1. Counterterrorism Efforts and Law Enforcement Assistance

In its security policies towards the Transcaucasus, the U.S. is interested in enhancing the security of regional states and addressing “threats that are of concern to the United States.”⁴⁴⁴ As Olikier writes, if prior to 9/11 “there existed the possibility that the interests of allies, such as Turkey, would lead to greater U.S. involvement in the region . . . now the United States has its own imperatives to remain involved.”⁴⁴⁵ Washington’s security interests in the Transcaucasus have dramatically increased because the region has come to be viewed “as the lynchpin of any U.S. role in Central Asia.”⁴⁴⁶ Analysts maintain that the Transcaucasus and Central Asia have become integral parts of U.S. war on terrorism.⁴⁴⁷ Importantly, the growing U.S. interest in the Transcaucasus and

⁴⁴⁰ Perovic, “From Disengagement to Active Economic Competition,” 9.

⁴⁴¹ Ibid.

⁴⁴² Aydin, “Regional Security Issues and Conflicts in the Caucasus,” 128-130.

⁴⁴³ U.S. President, *National Security Strategy of the United States of America*, The White House, March 2006, 39.

⁴⁴⁴ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 58.

⁴⁴⁵ Olikier, “Conflict in Central Asia and South Caucasus,” 225.

⁴⁴⁶ Cornell et al., *The South Caucasus: A Regional Overview and Conflict Assessment*, 60.

⁴⁴⁷ Thomas S. Szayna and Olga Olikier, “Introduction,” in *Faultlines of Conflict in Central Asia and the Caucasus: Implications for the US Army* (Santa Monica: RAND, 2003), 1-3.

improved security cooperation with regional countries both help these states to diversify their security policies, lessening their dependence on Russia.⁴⁴⁸

In the aftermath of the terrorist attacks, the three Southern Caucasian states were quick to grant the Pentagon fly-over rights and to offer their support for the Operation Enduring Freedom (OEF) in Afghanistan.⁴⁴⁹ Azerbaijan's strategic position acquired renewed importance for Washington. Good relations with Baku would help the U.S. to effectively project its power into Afghanistan and the Middle East. Caspian energy resources once again inspired intense attention from U.S. strategists as they renewed their search for non-OPEC energy resources to diversify global oil supply and lower oil prices.⁴⁵⁰ The importance of Azerbaijan also grew because of "the perceived need to strengthen [U.S.] ties with [secular, pro-Western] Muslim-majority states," whose participation in anti-terrorist efforts would "add legitimacy" to those missions.⁴⁵¹ The anti-terrorist rhetoric of Baku further strengthened Aliyev's position and helped to shift attitudes of the U.S. administration and the Congress.⁴⁵² In January 2002, Section 907 restrictions on US security assistance to Azerbaijan were waived by presidential authority.⁴⁵³ Since then, President Bush has exercised the waiver annually.⁴⁵⁴

The U.S. helps Azerbaijan and Georgia confront Islamic radicals and terrorists who penetrate these countries' territories.⁴⁵⁵ Moreover, Azerbaijan and Georgia

⁴⁴⁸ de Haas, "The Development of Russia's Security Policy," 12.

⁴⁴⁹ Emil Danielyan, "Rumsfeld Sees Military Ties With Armenia After Freeze On Azeri Sanctions," *RFE/RL*, 15 December 2001, Online. Available from <http://www.armenialiberty.org/> (accessed 05 January 2006).

⁴⁵⁰ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 58.

⁴⁵¹ *Ibid.*, 57-58.

⁴⁵² "Azerbaijan/Russia: Baku Circumspect in War on Terror," *Oxford Analytica*, 2.

⁴⁵³ Cornell et al., *The South Caucasus: A Regional Overview and Conflict Assessment*, 60. The waiver authority may be used if President "certifies that U.S. aid supports U.S. counter-terrorism efforts, supports the operational readiness of the armed forces, is important for Azerbaijan's border security, and will not harm NK peace talks or be used for offensive purposes against Armenia." See Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 2.

⁴⁵⁴ Curt Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union* (Washington DC: Library of Congress), 12 January 2006, RL32866, 10.

⁴⁵⁵ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 58.

reportedly play a “key role” in narcotics and arms trafficking routes;⁴⁵⁶ therefore, U.S. security assistance programs are also targeted at enhancing their border control and law enforcement capabilities. It has been also reported that the United States has committed millions of dollars to facilitate the withdrawal of Russian military bases from Georgia.⁴⁵⁷

Following the lifting of Section 907 restrictions, the U.S. Department of Defense has embarked on large programs of security assistance to Azerbaijan. In March 2002, the first U.S.-Azerbaijan military consultations were held in Baku, centered on military training and naval defense in the Caspian.⁴⁵⁸ Since then, the U.S. European Command (EUCOM) has significantly broadened its initiatives in Azerbaijan. They currently include the “Caspian Guard program” and the “Caspian Hydrocarbons initiative,” which provide security assistance to Azerbaijan to help protect energy corridors and establish an “integrated airspace, maritime and border control regime” with Kazakhstan.⁴⁵⁹

Other EUCOM initiatives in the Transcaucasus include the “South Caucasus Clearinghouse,” which aims to facilitate information sharing on security assistance programs among regional countries and the U.S., and the “Sustainment and Stability Operations Program” (SSOP) in Georgia.⁴⁶⁰ The goal of the SSOP, which was launched in 2005 as a follow-on to the Georgia Train and Equip Program (GTEP), is to improve readiness capabilities of four Georgian battalions, “in part to support U.S.-led coalition operations.”⁴⁶¹ The GTEP was carried out from 2002 to 2004; it was aimed at helping Georgian military, security, and border troops combat terrorists who had infiltrated

⁴⁵⁶ Cornell et al., *The South Caucasus: A Regional Overview and Conflict Assessment*, 54-58. Human trafficking was a problem in all three Southern Caucasian countries, which their respective governments took steps to address. Currently all three countries of the South Caucasus are in the “Tier two” group of nations. See U.S. Department of State, Office to Monitor and Combat Trafficking in Persons, “Trafficking in Persons Report,” 14 June 2004. Online. Available from <http://www.state.gov/> (accessed 15 December 2005). See also Karine Kalantarian, “Law-Enforcement Officials Cleared of Human Trafficking,” *RFE/RL*, 01 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 1 March 2006).

⁴⁵⁷ Ekaterine Metreveli and Ester Hakobyan, “The Political Underpinnings of U.S. Bilateral Aid to the Countries of Transcaucasus,” *Demokratizatsiya*. Vol. 9. No. 3. (Washington: Summer 2001), 374. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006).

⁴⁵⁸ Stephen Blank, “U.S. Military in Azerbaijan, to Counter Iranian Threat,” *Central Asia-Caucasus Analyst*, Central Asia-Caucasus Institute, SAIS, 1. (10 April 2002). Online. Available from <http://www.cacianalyst.org/> (accessed 15 December 2005).

⁴⁵⁹ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 12.

⁴⁶⁰ Ibid.

⁴⁶¹ Ibid.

Georgia from Afghanistan, Chechnya and Arab countries. The program was also intended to strengthen Georgia's ability to ensure internal stability and protection of energy pipelines that traverse its territory.⁴⁶²

As part of the GTEP, the U.S. deployed about 200 military trainers to instruct Georgian troops in "light infantry tactics."⁴⁶³ The U.S. also provided those forces with small arms, communications equipment, ammunition and uniforms.⁴⁶⁴ Interestingly, Russia acquiesced to the deployment of military instructors, and Putin reportedly downplayed the move, remarking that it "is not a tragedy."⁴⁶⁵ According to Trenin, this response reflects Putin's "hard-headed analysis" of Moscow's expectations, resources, and the threat of terrorism, which, "for the first time since 1945 . . . [had become] a common enemy" for the United States and Russia.⁴⁶⁶

After lifting the prohibition on security assistance to Azerbaijan, Washington has also intensified its military cooperation with Armenia, which became eligible for Foreign Military Financing (FMF), and International Military Education and Training (IMET).⁴⁶⁷ Security assistance programs in Armenia are aimed at improving stability in the country, promoting interoperability with NATO troops, providing professional military training, establishing peacekeeping capabilities, and modernizing military communications.⁴⁶⁸ In May 2004, Armenia received the first installment of a seven million dollar military communications contract from the U.S. Department of Defense (DoD).⁴⁶⁹ The U.S. government also provides funding for security improvements in Metsamor nuclear power

⁴⁶² Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

⁴⁶³ Shaffer, "US Policy," in *The South Caucasus: A Challenge for the EU*, 59.

⁴⁶⁴ Ibid.

⁴⁶⁵ Baev, "Russia's Policies in the North and South Caucasus," in *The South Caucasus*, 44.

⁴⁶⁶ Trenin, "Russia and Anti-Terrorism," in *The South Caucasus*, 105.

⁴⁶⁷ The members of the U.S. Congress have maintained that the military balance between Armenia and Azerbaijan is preserved by providing equal amounts of security assistance. They have rejected the Administration's assurances that the disparate military aid would not undermine the Nagorno-Karabakh peace talks. See Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

⁴⁶⁸ Ministry of Foreign Affairs of the Republic of Armenia, "US Assistance to Armenia: Fiscal Year 2004," US Department of State Fact Sheet, 17 August 2004. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 15 December 2005).

⁴⁶⁹ "Armenia/Russia: Yerevan Plays Moscow Against West," *Oxford Analytica*, 2.

plant, joint research activities and mine clearing.⁴⁷⁰ Armenian Armed Forces also have a military cooperation program with the Kansas National Guard, as part of the Pentagon's National Guard State Partnership Program.⁴⁷¹

It is important to note that Armenia, Azerbaijan, and Georgia play significant counter-terrorism roles by participating in multinational efforts to secure stability and peace in Iraq.⁴⁷² Azerbaijan and Georgia dispatched their forces to Iraq in August 2003. In January 2005, Armenia deployed its personnel in Iraq, despite significant domestic opposition and concerns about the safety of thousands of Armenian-Iraqis.⁴⁷³ The supporters of the risky Iraq mission argued that Armenia's involvement in the anti-terrorist multinational force is "necessary for forging closer security links with the United States."⁴⁷⁴ Security cooperation with Washington has broad political-military implications for Armenia; fostering closer defense cooperation with the U.S. is important to modernize and reform Armenia's military, and to "complement" Armenian-Russian security alliance with US-Armenian military ties, thus strengthening Armenia's security.⁴⁷⁵

According to Lynch, U.S. policy since September 11 has also given priority to gaining basing rights in the Transcaucasus.⁴⁷⁶ In November 2004, General Charles Wald, deputy head of U.S. EUCOM, announced that the Pentagon was "exploring the possible establishment of cooperative security locations—sites without a full-time U.S. military presence that are used for refueling and short-duration deployments—in Azerbaijan or Georgia."⁴⁷⁷ Recently, there have been numerous media reports and speculations about possible deployment of U.S. military bases in Georgia and Azerbaijan. These reports,

⁴⁷⁰ "US Assistance to Armenia: Fiscal Year 2004," US Department of State Fact Sheet.

⁴⁷¹ "Armenia's Defense Chief Holds Meetings in Kansas," *RFE/RL*, 25 October 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 25 October 2005).

⁴⁷² Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 3.

⁴⁷³ *Ibid.*

⁴⁷⁴ Astghik Bedevian, "Parliament Extends Armenian Troop Presence in Iraq," *RFE/RL*, 08 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 08 December 2005).

⁴⁷⁵ Ruzanna Stepanian, "Armenian Defense Chief to Visit the U.S." *RFE/RL*, 11 October 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 11 October 2005).

⁴⁷⁶ Dov Lynch, "Misperceptions and Divergences," in *What Russia Sees*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 74 (January 2005), 11-12.

⁴⁷⁷ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 12-13.

however, were rejected by top U.S. officials.⁴⁷⁸ Interestingly, both Azerbaijan and Georgia have repeatedly stated that they do not plan to have any foreign military bases on their soil.⁴⁷⁹ Analysts suggest that the leadership in both countries is careful not to provoke fears of Russia and Iran, their powerful neighbors. It remains unclear whether foreign bases will appear in the Transcaucasus anytime soon.

2. NATO's Regional Involvement

Since its founding, NATO has been perceived as an “organic institution,” constantly adapting to changing requirements of the international environment.⁴⁸⁰ After the collapse of the Soviet camp the adaptation in some sense became synonymous with the Alliance's enlargement, an initiative mainly led by the most powerful NATO member, the United States.⁴⁸¹ As Thomas writes, many analysts thought that NATO, an organization established in response to the Cold War, would become an “anachronism that had to go.”⁴⁸² The Alliance, however, managed to survive; it underwent dramatic changes, adapting to new challenges, and transformed itself to acquire out-of-area tasks and peacekeeping, and peace-enforcement missions.⁴⁸³

The members of the Alliance were quick to embrace the notion that “European security was indivisible and that only through cooperation with non-NATO members would security and stability throughout the continent be ensured.”⁴⁸⁴ NATO thus

⁴⁷⁸ “SSHA Ne Budut Razvyortivat' Voyenniye Bazih V Azerbajaneh,” (The US Will Not Deploy Military Bases in Azerbaijan) *Polit.ru*, 28 May, 2005. Online. Available at: www.polit.ru (accessed 28 May 2005).

⁴⁷⁹ See “Ilham Aliev: Adrbəjanum Amerikyan Razmakayan Chi Linelu,” (Ilham Aliev: There Will be No US Bases in Azerbaijan) *RFE/RL*, 03 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 03 March 2006). “Akhalkalaki Razmakayanah Kpakvi Minchev 2007-ih Tareverj” (The Base in Akhalkalaki Will be Closed by the End of 2007) *RFE/RL*, 03 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 03 March 2006).

⁴⁸⁰ Ian Q. R. Thomas, *The Promise of Alliance* (Rowman and Littlefield Publishers, 1997), 187.

⁴⁸¹ Ronald D. Asmus, *Opening NATO's Door: How the Alliance Remade Itself for a New Era* (New York: Columbia University Press, 2002), 301-302.

⁴⁸² Thomas, *The Promise of Alliance*, ix.

⁴⁸³ Giovanna Bono, *NATO's 'Peace-Enforcement' Tasks and 'Policy Communities': 1990-1999* (England: Ashgate Publishing, 2003), 146.

⁴⁸⁴ Domitilla Sagramoso, “The UN, the OSCE and NATO,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December, 2003), 82.

dedicated significant efforts to developing partnership relations with the former Soviet states and countries of East Europe. The Transcaucasus was recognized as a region of strategic importance for NATO.⁴⁸⁵

Along with the U.S., several key NATO allies, including Turkey, the United Kingdom, and to a lesser degree Italy, France and Norway, have developed large economic stakes in the Caspian; they accordingly share a common interest in developing the region's oil resources and safeguarding energy corridors.⁴⁸⁶ In 1997, during his visit to Baku, Javier Solana, then NATO Secretary-General, emphasized the strategic significance of the region:

The Caucasus is an important region for Europe which has enormous social and economic potential. Europe will not be completely secure if the countries of the Caucasus remain outside European security.⁴⁸⁷

The Alliance's involvement in the region, therefore, has been aimed at developing regional cooperation and enhancing the security of the three Southern Caucasian states.⁴⁸⁸ The primary vehicle for such cooperation has been the Partnership for Peace program (PfP), which was "led by American initiative."⁴⁸⁹ The program was built on the format of the North Atlantic Cooperation Council (NACC)⁴⁹⁰ and was designed to help prospective new members in "creating effective and adequate defense structures . . . to address new security threats, promote civilian control over the military and encourage defense planning and budgeting."⁴⁹¹ In 1994, all three Transcaucasian states joined the PfP and embraced the opportunities provided by the program.⁴⁹²

⁴⁸⁵ Cornell, *Small Nations and Great Powers*, 384.

⁴⁸⁶ U.S. Department of Energy, (EIA), "Azerbaijan, Country Analysis Brief." See also Glen E. Howard, "NATO and the Caucasus: The Caspian Axis," in *NATO After Enlargement: New Challenges, New Missions, New Forces*, ed. Stephen Blank (Carlisle Barracks, PA: Strategic Studies Institute, U.S. Army War College, 1998), 153-154. Online. Available from <http://www.strategicstudiesinstitute.army.mil> (accessed 01 February 2005).

⁴⁸⁷ Javier Solana. Quoted in Howard, "NATO and the Caucasus: The Caspian Axis," 152.

⁴⁸⁸ Domitilla Sagramoso, "The UN, the OSCE and NATO," in *The South Caucasus*, 82.

⁴⁸⁹ Thomas, *The Promise of Alliance*, 156.

⁴⁹⁰ The NACC was replaced by Euro-Atlantic Partnership Council in 1997. See Stanley R. Sloan, *NATO, the European Union, and the Atlantic Community: The Transatlantic Bargain Reconsidered* (Maryland: Rowman and Littlefield Publishers, 2003), 141-142.

⁴⁹¹ Sagramoso, "The UN, the OSCE and NATO," in *The South Caucasus*, 82.

⁴⁹² Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

In 1999, Azerbaijan and Georgia joined the NATO Planning and Review Process (PARP) to advance interoperability and transparency between their forces and NATO troops.⁴⁹³ Armenia joined the PARP program in 2002, and, subsequently, significantly increased its engagement in the EAPC.⁴⁹⁴ In 2003, Armenia hosted the “Cooperative Best Effort,” the second PfP land-based military exercise in the Transcaucasus.⁴⁹⁵ It has been suggested that after the lifting of Section 907 restrictions increased U.S.-Azerbaijani military cooperation, Armenia was prompted to intensify its security dialogue with NATO in order to lessen polarization and competition in the region.⁴⁹⁶ Importantly, U.S.-Russian expanding cooperation in the fight against terrorism, coupled with “forward movement in NATO-Russia relations,”⁴⁹⁷ helped Yerevan to complement Russian-Armenian security ties with improved cooperation with EAPC partners, while at the same time avoiding the unpleasant situation of “taking sides.”⁴⁹⁸ Moreover, deepening U.S.-Armenian military cooperation became instrumental in strengthening Armenia’s relations with NATO member-states.

It is important to note that after regaining its independence, Armenia, a European country by default, has chosen a “European direction” of foreign policy—orienting itself towards Europe.⁴⁹⁹ Therefore, expanding cooperation with NATO, the key “source and guardian of a new pan-European security system,” is in line with Armenia’s general

⁴⁹³ Sagramoso, “The UN, the OSCE and NATO,” in *The South Caucasus*, 83.

⁴⁹⁴ Ibid., 84.

⁴⁹⁵ North Atlantic Treaty Organization (NATO), “NATO Conducts Exercise Cooperative Best Effort in Armenia,” *IMS Press Advisory*, Brussels, 12 June 2003. Online. Available from <http://www.nato.int/ims/2003/i030612e.htm> (accessed 15 December 2005).

⁴⁹⁶ Sagramoso, “The UN, the OSCE and NATO,” in *The South Caucasus*, 84.

⁴⁹⁷ North Atlantic Treaty Organization (NATO), “Statement by His Excellency Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia,” Brussels, 07 December 2001. Online. Available from <http://www.nato.int/docu/speech/2001/s011207aa.htm> (accessed 15 December 2005). See also “NATO: Armeniya Ne Zamenit Nam Rossiyu (NATO: Armenia Will Not Substitute Russia for Us). *Polit.ru*, 25 February, 2005. Online. Available at: www.polit.ru (accessed 25 February 2005). For NATO-Russia anti-terrorist cooperation see Stephen Blank, *The Future of Transcaspian Security*, 28-29.

⁴⁹⁸ Ministry of Foreign Affairs of the Republic of Armenia, “Speech by Vartan Oskanian Minister of Foreign Affairs Republic of Armenia to the Yale Conference on The Caucasus and Central Asia,” 19 September 2002. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 15 December 2005).

⁴⁹⁹ Ministry of Foreign Affairs of the Republic of Armenia, “Unedited Text of Minister Oskanian’s Talk at the Center for Strategic and International Studies in Washington DC, June 1999.”

foreign policy.⁵⁰⁰ As Armenia's Foreign Minister Vartan Oskanian noted, "neither invited nor self-invited to be a candidate for NATO membership, Armenia, through PfP, is active and interested in the process [of engagement with NATO]."⁵⁰¹

At the 2002 Prague summit, NATO launched the Individual Partnership Action Plan (IPAP) "designed specifically for each individual partner and intended to prioritize, harmonize and organize all aspects of the NATO-Partner relationship in the . . . EAPC and PfP framework."⁵⁰² In 2004, Georgia became the first country in the Transcaucasus to have an IPAP with NATO. The following year, North Atlantic Council approved IPAPs for Armenia and Azerbaijan.⁵⁰³ NATO spokesman James Appathurai hailed intensification of NATO-South Caucasus cooperation, stating that it "reflects the 2004 Istanbul Summit decisions to place a special focus on the strategically important regions of the Caucasus and Central Asia."⁵⁰⁴

Armenia, Azerbaijan, and Georgia participate in NATO-led peacekeeping operations in Kosovo. Georgia and Azerbaijan have also dispatched some forces to support coalition operations in Afghanistan.⁵⁰⁵ Both countries have stated that they want their countries to join NATO. Georgia's Saakashvili has recently announced that his country is "very close . . . to becom[ing] a NATO member in 2008."⁵⁰⁶ According to Nichol, however, "much greater progress in military reform" will likely be required before Georgia and Azerbaijan are considered for membership.⁵⁰⁷ As Sagramoso writes, "it remains unclear . . . whether or not NATO's door will be open to them in the near

⁵⁰⁰ Thomas, *The Promise of Alliance*, 182.

⁵⁰¹ Ministry of Foreign Affairs of the Republic of Armenia, "Statement by Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia at the Chatham House," 16 April 2004. Online. Available from <http://www.armeniaforeignministry.com> (accessed 15 December 2005).

⁵⁰² Sagramoso, "The UN, the OSCE and NATO," in *The South Caucasus*, 84.

⁵⁰³ North Atlantic Treaty Organization (NATO), "Individual Partnership Action Plans," *NATO Topics*. Brussels, 20 January 2006. Online. Available from <http://www.nato.int/issues/ipap/index.html> (accessed 21 January 2006).

⁵⁰⁴ North Atlantic Treaty Organization (NATO), "NATO and South Caucasus Partners Intensify Cooperation," Brussels, 16 December 2006. Online. Available from <http://www.nato.int/docu/update/2005/12-december/e1216a.htm> (accessed 21 January 2006).

⁵⁰⁵ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

⁵⁰⁶ "Saakashvili: Georgia Has A Chance to Become NATO Member in 2008," *Civil Georgia*. 14 February 2006. Online. Available from <http://www.civil.ge/> (accessed 14 February 2006).

⁵⁰⁷ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

future, and whether or not NATO will be ready to protect them against a foreign [read Russian] attack or a major threat.”⁵⁰⁸ She notes that “NATO has tended to adopt vague commitments” towards Southern Caucasian countries.⁵⁰⁹ Although the Alliance has “regularly condemned the use of force in the region,” it has refrained from getting involved in conflict resolution efforts in the Transcaucasus.⁵¹⁰

Despite some ambivalence, better relations with NATO aimed at strengthening Russia’s institutional links within the Euro-Atlantic community are an important part of Russian President Putin’s policy. Recently, during a meeting of Russia’s Security Council, it was reiterated that “joint security initiatives with NATO correspond to Russia’s long term interests . . . [and] provide new opportunities to address national problems.”⁵¹¹ Relations with NATO are also important in creating a more predictable climate in Eurasia, although Russia still appears somewhat concerned about the prospects of NATO’s “geographic expansion.”⁵¹²

More recently, commenting on Georgia’s possible NATO membership, Sergey Ivanov, Russia’s Defense Minister, stated that Russia is not “dramatizing the situation, because stereotypes of the Cold War confrontation of [two opposing] blocs remain in the past, while Russia’s cooperation with NATO expands year after year.”⁵¹³ He then emphasized that “although the advancement of a military bloc to our borders is not very pleasing, in light of this new thinking [it is] not fatal either.”⁵¹⁴ Interestingly, this change in “thinking,” coupled with increasing Western influence in the region and a wave of velvet revolutions that swept through Russia’s neighborhood, have prompted analysts to suggest that “Russia acts as a status quo power that is no longer able to resist the rise of

⁵⁰⁸ Sagramoso, “The UN, the OSCE and NATO,” in *The South Caucasus*, 85.

⁵⁰⁹ Ibid.

⁵¹⁰ Ibid., 86.

⁵¹¹ The National Security Council of the Russian Federation, “O Perspektivakh Otnosheniih Rossii Ikh NATO,” (On Future Trends in Russia-NATO Relations), 28 January 2005, 1. Online. Available from <http://www.scrf.gov.ru/news/2005/01/28.shtml> (accessed 1 February 2005).

⁵¹² Ibid.

⁵¹³ Ministry of Defense of the Russian Federation, “Otvety Zamestitelya Predsedatelya Pravitel’stva RF, Ministra Oborony RF S.B. Ivanova Na Voprosy Ital’yanskoi Gazety La Stampa,” (Russian Deputy Prime Minister, Defense Minister S.B. Ivanov’s Interview with the Newspaper La Stampa), 09 February 2006. Online. Available from <http://www.mil.ru/articles/article12184.shtml> (accessed 10 February 2006).

⁵¹⁴ Ibid.

change.”⁵¹⁵ According to Baev, Moscow’s “policy is one of small steps aimed at increasing control and influence.”⁵¹⁶ One might add that Russia’s economic expansion into strategic energy sectors of regional countries clearly manifests this approach.

C. DEMOCRATIC INITIATIVES AND HUMANITARIAN, ECONOMIC AND SOCIAL ASSISTANCE PROGRAMS

After the collapse of the Soviet camp, the U.S. launched assistance programs in the region aimed at facilitating democratic transition, growth of market economies, and development of private and social sectors.⁵¹⁷ The cornerstone of such partnerships has been the FREEDOM Support Act (FSA) account, created in 1992.⁵¹⁸ Early in the 1990s, the U.S. also provided significant humanitarian assistance to the region’s countries from U.S. Department of Agriculture (USDA) funds.⁵¹⁹ The U.S. also contributes to programs funded through the World Bank and International Monetary Fund.⁵²⁰

Armenia and Georgia have been the largest per capita recipients of U.S. aid in the former Soviet Union, “indicating the high level of concern within the Administration and Congress.”⁵²¹ As noted before, in the case of Armenia, this has a lot to do with the prominent role of the Armenian-American community and its influence on foreign policy formulation towards the South Caucasus. At the same time, it is worth mentioning that “U.S. investment is the highest in Azerbaijan’s energy sector” despite “rampant corruption” in the country.⁵²²

⁵¹⁵ Zagorski, “Russia and the Shared Neighborhood,” 69.

⁵¹⁶ Baev, “Russia’s Policies in the North and South Caucasus,” 50.

⁵¹⁷ Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union*, 1-2.

⁵¹⁸ *Ibid.*, 1.

⁵¹⁹ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 11.

⁵²⁰ *Ibid.*

⁵²¹ *Ibid.*

⁵²² *Ibid.*, 13.

Table 3. U.S. FY1992-FY2004 and FY2004 Budgeted Aid, FY2005 Estimated Aid, and the FY2006 Approved Aid (From: Jim Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 23 February 2006. 12)

(in millions of dollars)

South Caucasus Country	FY1992-FY2004 Budgeted Aid ^a	FY2004 Budgeted Aid ^a	FY2005 Actual ^b	FY2006 Estimate ^b	FY2007 Request ^b
Armenia	1,487.6	89.39	86.56	81.7	58.14
Azerbaijan	500.11	79.54	56.31	47.94	40.12
Georgia	1,409.0	147.19	108.91	86.01	75.84

a. FREEDOM Support Act and Agency budgets; b. FREEDOM Support Act and other Function 150 funds. Does not include Defense or Energy Department funding, funding for exchanges, or Millennium Challenge Corporation programs in Armenia (\$235.65 million) and Georgia (\$295.3 million).

In 2004, Armenia and Georgia were invited to apply for aid from the Millennium Challenge Account (MCA), a major development assistance program implemented by the Millennium Challenge Corporation (MCC).⁵²³ The MCC provides aid to states “that meet certain standards of accountability and commitment to economic and democratic reform.”⁵²⁴ In September 2005, MCC approved a 295.3 million dollar “compact” with Georgia to improve “transport, energy, and other infrastructure and to stimulate enterprise development, especially in agriculture.”⁵²⁵ A major portion of the compact was allocated to rehabilitation of the gas pipeline network in Georgia, which Georgian authorities would otherwise have been compelled to sell to Russia’s Gazprom in order to save it from imminent collapse. The Georgian government undertook a commitment not to sell its gas pipeline network until the expiration of the compact term, “except as may be otherwise agreed by MCC in writing.”⁵²⁶ Stephan Mann, U.S. President’s Advisor for Caspian Energy Issues, noted that “selling of the gas pipeline system . . . contradict[s] the plans of the United States, which envisage creation of alternative gas supply sources for Georgia.”⁵²⁷

⁵²³ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 12.

⁵²⁴ Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union*, 5.

⁵²⁵ Ibid.

⁵²⁶ Millennium Challenge Corporation. “Millennium Challenge Compact between the United States of America Acting through the Millennium Challenge Corporation and the Government of Georgia,” 12 September 2005, 11. Online. Available from <http://www.mcc.gov/> (accessed 15 December 2005).

⁵²⁷ “U.S. Senior Official Comments on Georgia’s Plans to Privatize Gas Lines,” *Civil Georgia*. 24 February 2005. Online. Available from <http://www.civil.ge/> (accessed 05 December 2005).

In December 2005, the MCC approved a five-year 235.6 million dollar compact with Armenia, intended to “reduce rural poverty through rehabilitation of rural roads and irrigation.”⁵²⁸ The compact came with its own conditions. In a letter to President Kocharian, MCC Chief executive John Danilovich urged the Armenian government to take steps to correct problems of “electoral fraud and media restrictions” reported during the constitutional referendum in November 2005.⁵²⁹ In January 2006, the MCC signaled the release of economic assistance to Armenia, saying that it “has received credible reassurances that the Kocharian administration is committed to democracy and good governance.”⁵³⁰ In his January 18 message to Kocharian, Danilovich said that he was “heartened” by the Armenian government’s “commitment to pursue existing cases of fraudulent voting activity and violence against journalists, as well as . . . receptivity to outside assistance for training in election preparation, administration and monitoring.”⁵³¹ At the same time, the MCC warned the Armenian government that it must maintain eligibility standards or risk suspension of the compact.

It has been suggested that U.S. assistance programs are part of American influence in the CIS and globally. Former U.S. Secretary of State Madeline Albright underscored this point in her statement before the House Appropriations Committee in 2000. She said,

[T]he term “foreign aid” has become virtually obsolete. Because when we fight proliferation, drug trafficking, terrorism, disease, and crime—we aid America. The same is true when we work worldwide to open markets, foster democracy and strengthen the rule of law.⁵³²

⁵²⁸ Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union*, 5.

⁵²⁹ Ibid., 10. See also Millennium Challenge Corporation, “Ambassador Danilovich’s letter to Armenian President Robert Kocharyan,” 16 December 2005, 11. Online. Available from <http://www.mcc.gov/> (accessed 15 December 2005).

⁵³⁰ Emil Danielyan, “U.S. Set to Release Promised Extra Aid to Armenia,” *RFE/RL*, 24 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 24 January 2006).

⁵³¹ Millennium Challenge Corporation, “Ambassador Danilovich’s letter to Armenian President Robert Kocharyan,” 18 January 2006. Online. Available from <http://www.mcc.gov/> (accessed 28 January 2006).

⁵³² U.S. Department of State, Office of International Information Programs, “Opening Statement by Secretary of State Madeleine K. Albright before the House Appropriations Committee, Subcommittee on Foreign Operations, Export Financing and Related Programs,” 15 March 2000. Online. Available from <http://www.usinfo.state.gov> (accessed 15 January 2006).

As Nichol notes, America's support for economic reforms and privatization "directly serve U.S. national interests by opening new markets for U.S. goods and services and sources of energy and minerals."⁵³³ The United States is interested in encouraging the transformation of the Southern Caucasian former Soviet states into politically stable and economically viable democracies. It appears that outcomes of such a transition are "more likely to benefit the United States if it remains engaged as a partner in the process, promoting its national security and values."⁵³⁴ As Nye writes in his seminal book, *The Paradox of American Power*, today, when "the foundations of power have been moving away from the emphasis on military force" it is "intangible power resources, such as an attractive culture, ideology, and institutions" that help the U.S. to obtain the outcomes it desires in world politics.⁵³⁵ Undoubtedly, U.S. assistance programs to regional countries are a major investment in "instruments of soft power"⁵³⁶ and, at the same time, an important vehicle for the regional countries to overcome the hardships of post-communist transformation and fully integrate into global political and economic processes.

According to Tarnoff, democratization programs, including technical assistance to political parties and independent media, as well as financial or material support for civil society groups and non-governmental organizations (NGOs), carry "the danger of charges of U.S. interference in a country's internal affairs."⁵³⁷ Indeed, Georgia's Rose Revolution was interpreted very differently in Washington and Moscow. While the authorities in the U.S. hailed it as a "victory for democracy," Russia's leadership saw it as

⁵³³ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 13.

⁵³⁴ Metreveli and Hakobyan, "The Political Underpinnings of U.S. Bilateral Aid," 368.

⁵³⁵ Joseph Nye, *The Paradox of American Power: Why the World's Only Superpower Can't Go It Alone* (Oxford: Oxford University Press, 2002), 14-17.

⁵³⁶ Ibid., 68. For importance of informational powers in U.S. National Strategy, see also David Jablonsky, "National Power" in *Guide to National Security Policy and Strategy*, ed. Boone Bartholomees, Jr. (US Army War College, 2004), 110-111. Online. Available at: <http://www.au.af.mil/au/awc/awcgate/army-usawc/strategy2004/> (accessed 19 January 2006).

⁵³⁷ Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union*, 10.

“an organized coup against an elected leadership that had succeeded only thanks to the support of outside forces.”⁵³⁸ As Baev writes, the Rose Revolution in Tbilisi took “Moscow very much by surprise.”⁵³⁹

In his examination of Georgia’s Rose Revolution, Fairbanks writes that the U.S. was in “the throes of its most consistent and serious attempt ever in any ex-Soviet republic to secure free and fair balloting.”⁵⁴⁰ The United States had provided technical aid to computerize Georgia’s voter rolls and had funded a large OSCE election observer mission in Georgia. Fairbanks notes that significant financial support for deployment of domestic monitors had come from the U.S.-based National Democratic Institute and the Open Society Institute, funded by George Soros. The Open Society Institute had also provided funds for activities of Georgia’s Kmara (Enough) movement.⁵⁴¹ Fairbanks notes that besides direct U.S. influence, other factors, such as economic distress, state weakness, a divided ruling party, a looming succession crisis, provided conditions in which independent businesses, NGOs and media came together to “aid democratization when the moment was right.”⁵⁴² As Tarnoff writes, U.S. democratization programs “may have planted seeds of change, especially in support for civil society and political party training,” but “it is not possible to say to what degree U.S. assistance is responsible for the positive developments.”⁵⁴³

Analysts maintain that the United States will continue to invest funds to promote democratization in the region, “but where infractions occur this will probably not have a major impact on U.S. policy towards the region.”⁵⁴⁴ According to Blank, “political conditionality as a prerequisite of investment, trade, and aid is fast receding in visibility

⁵³⁸ Lynch, “Misperceptions and Divergences,” in *What Russia Sees*, 12.

⁵³⁹ Baev, “Russia’s Policies in the North and South Caucasus,” 50.

⁵⁴⁰ Charles H. Fairbanks, “Georgia’s Rose Revolution,” *Journal of Democracy* (April 2004), Vol. 15, No. 2, 112-114. Online. Available from Proquest <http://www.proquest.com/> (accessed 01 February 2005). See also “Varderi Hekhapokhutyunah Anhnar Kliner Arants AMN Ognutsyan” (Rose Revolution Would Not Be Possible without U.S. Assistance) *RFE/RL*, 07 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 7 December 2005).

⁵⁴¹ Ibid., 114.

⁵⁴² Ibid.

⁵⁴³ Tarnoff, *Issue Brief for Congress: U.S. Assistance to the Former Soviet Union*, 9.

⁵⁴⁴ Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 58.

throughout the area” where energy and security dominate the agenda.⁵⁴⁵ Most recently, such concerns have been aired with regards to parliamentary elections in Azerbaijan, which were held with numerous irregularities and serious violations.⁵⁴⁶ Leo Platvoet, the head of the election observer delegation from the Parliamentary Assembly of the Council of Europe (PACE) went so far as to accuse the Bush Administration of having “double standards on democracy.”⁵⁴⁷ Similar accusations have also been made by Azerbaijan’s opposition parties.⁵⁴⁸ In this regard, American analysts have called for “a comprehensive, balanced, and strategic approach” towards southern Caucasian countries that will allow the U.S. to disassociate itself from trends and forces that “could later act to undermine internal and regional security and development in these states.”⁵⁴⁹

D. OIL AND PIPELINE POLITICS

Almost immediately after the collapse of the USSR, Western oil companies rushed to the countries of Caspian basin and tried to reach agreements on the exploitation of the region’s oil and gas fields.⁵⁵⁰ It soon became clear to Western policymakers that the Transcaucasus occupies a strategic position as a gateway to the Caspian and a transit point of energy resources to the West. U.S. strategists were interested in “dual containment” of Iran—discouraging pipelines that would traverse its territory, and preventing Iranian companies from participating in the development of Azerbaijani oil and gas fields.⁵⁵¹ Moreover, Caspian energy supplies moving westward and bypassing Russia were to provide “freedom from Russian influence”⁵⁵² by lessening the dependence of South Caucasian and Central Asian small states on Russian export routes; in the case of energy importing countries, the new routes were to diversify their energy

⁵⁴⁵ Blank, *US Military Engagement with Transcaucasia and Central Asia*, 7.

⁵⁴⁶ Jackson Diehl, “Democracy or Duplicity?” *The Washington Post* (04 July 2005), 17-18. Online. Available from <http://www.washingtonpost.com/> (accessed 05 December 2005).

⁵⁴⁷ “Vibori V Azerbajjaneh: SSHA Ulicheni V Litsemerii,” (Elections in Azerbaijan: US Hypocrisy Exposed). *Polit.ru*, 03 December, 2005. Online. Available at: www.polit.ru (accessed 03 December 2005).

⁵⁴⁸ “Adrbejanum AMN Despanah Herqum eh Andimutyany Mekhadranqah” (U.S. Ambassador to Azerbaijan Denies Opposition’s Accusations) *RFE/RL*, 8 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 08 December 2005).

⁵⁴⁹ Blank, *US Military Engagement with Transcaucasia and Central Asia*, 7.

⁵⁵⁰ Cornell, *Small Nations and Great Powers*, 366.

⁵⁵¹ *Ibid.*, 374.

⁵⁵² Strategic Forecasting Inc, “Russia: Losing More Than Transit Fees to New Pipelines.” Online. Available from <http://www.stratfor.com/> (accessed 15 January 2006).

supplies. This meant U.S. support for non-Russian BTC and BTE pipelines, which would simultaneously increase the influence of Turkey in the region by tying it to the Transcaucasian states.⁵⁵³ Washington made it clear that in addition to economic concerns, there were political factors behind its decision to support the construction of these pipelines. As one analyst writes, “throughout the project’s history, political support has been stronger than commercial backing.”⁵⁵⁴

Initially, BTC was conceived as a Baku-Ceyhan direct pipeline, which in the shortest and economically cheapest way would transport Caspian oil to the Mediterranean Sea—passing through Armenia.⁵⁵⁵ However, the conflict over Nagorno-Karabakh put an end to this idea, since both Armenia and Azerbaijan rejected the proposal—the former refusing to make concessions for the sake of the oil transit deal, the latter not willing to make its energy exports dependent on Armenia.⁵⁵⁶ Therefore, the construction of BTC, BTE pipelines, and “the development of the East-West transport and telecommunications corridor all took place through Georgia—effectively deepening regional isolation of Armenia,”⁵⁵⁷ which was already blockaded by Azerbaijan and Turkey.

The projects simultaneously increased both Georgia’s geopolitical importance and the special U.S. attention towards it.⁵⁵⁸ As Cornell notes, “a chain is no stronger than its weakest link,” and accordingly, in the crucial region of the South Caucasus, “the crucially

⁵⁵³ Andrew Wilson, *The Ukrainians: Unexpected Nation* (New Haven: Yale Nota Bene, 2002), 276. See also Shaffer, “US Policy,” in *The South Caucasus: A Challenge for the EU*, 55. Several American companies have holdings in Azerbaijan’s oil industry and in the BTC pipeline (ExxonMobil, Unocal, ConocoPhillips, and Amerada Hess). See Robert G. Lawson, “BTC Pipeline Completed, Ready to Move New Crude Supplies,” *Oil and Gas Journal*, Vol. 103, No. 24 (27 June 2005), 61-63. Online. Available from Proquest <http://www.proquest.com/> (accessed 15 December 2005).

⁵⁵⁴ “Caucasus: Risks Mount as BTC Pipeline Goes Ahead; Caucasus: BTC Uncertainty,” *Oxford Analytica*, 25 September 2003, 1. Online. Available from Proquest <http://www.proquest.com/> (accessed 30 January 2006).

⁵⁵⁵ Zeyno Baran, “The Baku-Tbilisi-Ceyhan Pipeline: Implications for Turkey,” in *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, ed. Frederick Starr and Svante Cornell (Washington DC: Johns Hopkins University-SAIS, 2005), 114.

⁵⁵⁶ Svante Cornell and Fariz Ismailzade, “The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan,” in *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, ed. Frederick Starr and Svante Cornell (Washington DC: Johns Hopkins University-SAIS, 2005), 81. See also Michael P. Croissant, *The Armenian-Azerbaijan Conflict: Causes and Implications* (Westport: Praeger Publishers, 1998), 132-133.

⁵⁵⁷ Cornell and Ismailzade, “The Baku-Tbilisi-Ceyhan Pipeline,” 81.

⁵⁵⁸ Vladimir Papava, “The Baku-Tbilisi-Ceyhan Pipeline: Implications for Georgia,” in *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, ed. Frederick Starr and Svante Cornell (Washington DC: Johns Hopkins University-SAIS, 2005), 96-102.

strategic region is Georgia.”⁵⁵⁹ Importantly, with the construction of BTC and BTE, Azerbaijan and Turkey hoped to achieve one of their key foreign policy goals—that is, Armenia’s economic isolation for the purpose of weakening it economically and gaining advantage in NK negotiations.⁵⁶⁰

The next chapter examines Armenian-Turkish and Armenian-Azerbaijani relations—aiming to identify their place in Armenia’s larger geopolitical environment. It also brings in the major findings from analysis of Russian and U.S. regional policies to explain Armenia’s foreign policy behavior.



Figure 2. Baku-Tbilisi-Ceyhan Pipeline (From: Strategic Forecasting Inc. “Circumventing the Bear,” 16 December 2005. Online. Available from <http://www.stratfor.com/> (accessed 15 January 2006)

⁵⁵⁹ Cornell, *Small Nations and Great Powers*, 389.

⁵⁶⁰ Cornell and Ismailzade, “The Baku-Tbilisi-Ceyhan Pipeline,” 61-62.

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V. THE GEOPOLITICS OF ARMENIA AND ITS POLICY OF MULTIDIRECTIONAL COMPLEMENTARITY

A. THE GEOPOLITICAL REALITIES AND CHALLENGES TO ARMENIA'S SECURITY

1. Geographical Imperatives

Spatial patterns and geographical factors are closely tied to the foreign policy and strategy of a state.⁵⁶¹ The geographical element is important in Buzan's theory of regional security subsystems and in Walt's balance of threat theory. The geographical environment crucially shapes the sense of "threat" for the regional states that are locked in geographical proximity with each other.⁵⁶² According to Adalian, Armenia's foreign policy is influenced by two "geographical imperatives": the country's small size (29,800 sq km) and its location.⁵⁶³ Armenia is landlocked and lacks strategic depth. Before reaching the region's waterways, Armenian goods and people have to pass through large stretches of foreign soil. This means that serious interference by neighboring countries in the communication and transportation lines can be a major destabilizing factor for Armenia.⁵⁶⁴ This vulnerability is compounded by the country's limited resource base and absence of natural barriers on many of its borders.

Armenia shares a border with two former Soviet states—Azerbaijan (787 km) and Georgia (164 km)—as well as with Turkey (268 km) and Iran (35 km).⁵⁶⁵ Armenia's relations with Georgia and Iran are good, Turkey is unfriendly and Azerbaijan is hostile. Georgia is an important link between Armenia to the outside world, but Georgia's ability to serve as a dependable transport route could be severely limited by domestic instability and the revival of ethnic conflicts in Georgia's regions of South-Ossetia and Abkhazia.

⁵⁶¹ Jablonsky, "National Power," 104. Geography is a complex construct, which provides a context for weighing the influence of numerous important variables, including demographic and identity factors, nationalism, ethnicity, access to strategic resources, environmental issues, geo-strategy and "strategic choke points." See Nation, "Regional Studies and Global Strategy," 57-58.

⁵⁶² Sheehan, *International Security: An Analytical Survey*, 22.

⁵⁶³ Adalian, "Armenia's Foreign Policy," 310.

⁵⁶⁴ Shireen T. Hunter, "The Evolution of the Foreign Policy of the Transcaucasian States," in *Crossroads and Conflict: Security and Foreign Policy in the Caucasus and Central Asia*, ed. Gary Bertsch et al. (London: Routledge, 2000), 29-30.

⁵⁶⁵ United States Central Intelligence Agency (CIA), *World Factbook 2006—Armenia*. Online. Available from <http://www.cia.gov/cia/publications/factbook/geos/am.html> (accessed 11 January 2006).

Turkey and Iran are sizeable countries with activist regional policies and conflicting interests and values.⁵⁶⁶ Turkey is a secular, pro-Western country and the West's proxy security guarantor in the region, while Iran is an international pariah, standing for Islamic fundamentalism and "everything anti-Western."⁵⁶⁷ Although the regional policies of Turkey and Iran "may not necessarily confront Armenia," their contest for regional influence places Armenia in "harm's way," directly impinging upon Armenia's security concerns.⁵⁶⁸

The regional security picture is even more complicated in light of Russian and U.S. engagement in the region. These challenges and the complexity of the regional geopolitics make the security "a number one priority for Armenia."⁵⁶⁹ Additionally, Armenia's security consciousness and threat perceptions are influenced by historical mistrust of Turkey, its powerful neighbor to the West. This is mainly due to the genocide and forced deportation of two-thirds of the Armenian community in Ottoman Turkey in the beginning of twentieth century, and successive Turkish governments' continued insistence on rejecting and rewriting the history of this matter.⁵⁷⁰

⁵⁶⁶ Adalian, "Armenia's Foreign Policy," 310. See also Adam Tarock, *Iran's Foreign Policy since 1990: Pragmatism Supersedes Islamic Ideology* (New York: Nova Science Publishers, 1999), 101-123.

⁵⁶⁷ Edmund Herzig, *Iran and the Former Soviet South* (Washington DC: Brookings Institution, 1995), 4-15.

⁵⁶⁸ Adalian, "Armenia's Foreign Policy," 310.

⁵⁶⁹ Ministry of Foreign Affairs of the Republic of Armenia, "Statement by Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia at the Chatham House."

⁵⁷⁰ For a discussion and research on the Armenian Genocide see Donald Bloxham, "Determinants of the Armenian Genocide," in *Looking Backward, Moving Forward*, ed. Richard G. Hovannisian (New Brunswick: Transaction Publishers, 2003), 23-50; Christopher J. Walker, *Armenia: The Survival of a Nation* (New York: St. Martin's Press, 1990), 177-243; Donald E. Miller and Louna Touryan Miller, *Survivors: An Oral History of the Armenian Genocide* (Berkeley: University of California Press, 1993), 10-231; Vahakn Dadrian, *The History of the Armenian Genocide* (Providence: Berghahn Books, 1995), 1-386; Belinda Cooper and Taner Akcam, "Turks, Armenians, and the 'G-Word,'" in *World Policy Journal*, Vol. 22. No. 3, (New York, Fall 2005), 81-94. Peter Balakian, *The Burning Tigris* (New York: Harper Collins Publishers, 2003), 135-393; Rouben Paul Adalian, "The Armenian Genocide," in *Encyclopedia of Genocide*, ed. Israel Charny (Santa Barbara: ABC-CLIO), 61-73; Fatma Müge Göçek, "Reconstructing the Turkish Historiography on the Armenian Massacres and Deaths of 1915," in *Looking Backward, Moving Forward*, 209-230; Yair Auron, *The Banality of Denial* (New Jersey: Transaction Publishers, 2003), 21-156; Gary J. Bass, *Stay the Hand of Vengeance: The Politics of the War Crime Tribunals* (Princeton: Princeton University Press, 2003), 109-138; Henry C. Theriault, "Denial and Free Speech: The Case of the Armenian Genocide," in *Looking Backward, Moving Forward*, 231-262. See also Armenian National Institute, *Genocide Research*. Available online from <http://www.armenian-genocide.org/research.html> (accessed 30 January 2006).

2. Armenian-Turkish Relations

From the very start, Turkey adopted a policy of “coercion” towards independent Armenia.⁵⁷¹ Although Turkey recognized Armenia’s independence as early as 1991, it refused to establish diplomatic relations with the country, introducing several obstacles for normalization of relations. The conditions demanded by Turkey included Armenia’s official recognition of the Treaty of Kars (drawn up by Ankara and Moscow in October 1921); abandonment of efforts to obtain affirmation of the genocide; repudiation of any land claims by Armenia’s government (despite the fact that there were no such claims), and unilateral concessions to Azerbaijan over the Nagorno-Karabakh conflict. Armenia is the legal successor of the Armenian Soviet Socialist Republic (ASSR), which was one of the signatories of the Treaty of Kars. The latter has not been revoked or denounced by the Republic of Armenia and remains in force today. The Treaty of Kars, together with the Treaty of Moscow (March 1921) signed away significant portions of historic Armenia and established Nakhichevan as an autonomous exclave of Azerbaijan, at the same time burying the Armenian question to cement Bolshevik Russia’s alliance with Kemalist Turkey. Ataturk opposed territorial arrangements favoring Armenia, because he believed “a strong Armenia could have potential territorial claims on Turkey.”⁵⁷²

In 1991, President Levon Ter-Petrosian and the Armenian Pan-National Movement (APNM) party assumed power in the newly independent Armenia, bringing “new ideas about Armenia’s relations with the outside world.”⁵⁷³ Ter-Petrosian explained this new vision during his visit to the U.S. in August 1990:

The most important factor for the future of the independent Armenian state is not having the protector in distant Moscow, but normalizing relations with its immediate neighbors, including Turkey. I believe that normal relations can benefit all concerned parties. By establishing

⁵⁷¹ Ruben Safrastyan, “A Test of Maturity: The Genocide Factor in Armenia’s Foreign Policy,” presented at the Ultimate Crime, Ultimate Challenge: Human Rights and Genocide Conference, Yerevan, Armenia, 20-21 April 2005. 4. Online. Available from <http://www.armeniaforeignministry.com/conference/> (accessed 30 April 2005).

⁵⁷² See Cornell, *Small Nations and Great Powers*, 73-78. Safrastyan, *A Test of Maturity: The Genocide Factor in Armenia’s Foreign Policy*, 4; Adalian, “Armenia’s Foreign Policy,” 335. See also Vartan Oskanian, “Closing Address,” Ultimate Crime, Ultimate Challenge: Human Rights and Genocide Conference, Yerevan, Armenia, 20-21 April 2005. 3. Online. Available from <http://www.armeniaforeignministry.com/conference/> (accessed 30 April 2005).

⁵⁷³ Hunter, “The Evolution of the Foreign Policy of the Transcaucasian States,” 31.

relations with neighboring Turkey, it can build up its trade and achieve access to sea routes through the Black Sea and to modern highways leading to Europe and the Middle East.⁵⁷⁴

The leadership of the APNM maintained that modern-day Turkey was fundamentally different from the Ottoman Empire and has abandoned ideas of “pan-Turkism” and “pan-Islamism.”⁵⁷⁵ The APNM saw the threat of “pan-Turkism” simply as a tool that the Armenian Revolutionary Federation (ARF), a leading nationalist, pro-Russian opposition party, to keep Yerevan dependent on Moscow.⁵⁷⁶ Armenia’s leadership also argued that Turkey had adopted a European orientation, which should facilitate Armenian-Turkish rapprochement.⁵⁷⁷

Armenia’s new government, therefore, adopted a generally conciliatory line towards Ankara and embarked on a series of initiatives aimed at building confidence in Turkish political circles.⁵⁷⁸ The issue of genocide was relegated to a secondary status.⁵⁷⁹ This was a significant departure from traditional Armenian political thinking, which put the Turkish recognition of the genocide as a precondition for normalizing relations.⁵⁸⁰ The desire to disassociate official Yerevan from that issue was so strong that the country’s Foreign Minister, the Diaspora Armenian Raffi Hovannisian, resigned, at Ter-Petrosian’s request, following his unauthorized remarks on the genocide while in Turkey.⁵⁸¹ According to Astourian, it was impossible to “forget the Genocide,” so the Ter-Petrosian government decided to leave the issue to historians, who could find a “happy medium” between Turkish and Armenian positions on the issue.⁵⁸²

⁵⁷⁴ Quoted in Paul B. Henze, *The Transcaucasus in Transition* (Santa Monica: RAND Publication Series, 1991), 19.

⁵⁷⁵ Hunter, “The Evolution of the Foreign Policy of the Transcaucasian States,” 31.

⁵⁷⁶ Astourian, *From Ter-Petrosian To Kocharian*, 26.

⁵⁷⁷ Hunter, “The Evolution of the Foreign Policy of the Transcaucasian States,” 31.

⁵⁷⁸ Adalian, “Armenia’s Foreign Policy,” 317.

⁵⁷⁹ Goldenberg, *Pride of Small Nations: The Caucasus and Post-Soviet Disorder*, 52-53.

⁵⁸⁰ Henze, *The Transcaucasus in Transition*, 19.

⁵⁸¹ Masih and Krikorian, *Armenia: At the Crossroads*, 101. Safrastyan, *A Test of Maturity: The Genocide Factor in Armenia’s Foreign Policy*, 4.

⁵⁸² Stephan H. Astourian, *From Ter-Petrosian To Kocharian: Leadership Change in Armenia*, Berkley Program in Soviet and Post-Soviet Studies, Working Paper Series (Berkeley: University of California, Winter 2000), 25. Online. Available from http://ist-socrates.berkeley.edu/~bsp/publications/2000_04-asto.pdf (accessed 12 January 2006).

The APNM had to balance nationalistic sentiment against the Turkish direction of Armenia's foreign policy. The ARF was accused of colluding with the Russian secret services; one of its top leaders, Hrair Maroukhian, was forced to leave the country.⁵⁸³ The APNM also signaled to diaspora Armenians that they "should not meddle in the political life of Armenia; rather, they should content themselves with providing financial aid"—that is, supporting the government's policies.⁵⁸⁴

Armenia's government assumed that normalization of relations with Turkey would weaken Azerbaijan's negotiating position and ensure Armenia's "piece of the pie" in the development of energy corridors.⁵⁸⁵ At the same time, Yerevan began signaling its intention to officially recognize Turkey's existing borders and renounce any territorial claims to Eastern Anatolia.⁵⁸⁶ The Turkish orientation of Armenian foreign policy, however, did not pass the test of the time, because the majority of assumptions underlying it were "highly dubious."⁵⁸⁷

It appeared that Turkey was not as interested in normalizing relations with Armenia as was Armenia with Turkey.⁵⁸⁸ Moreover, Ankara decided "to make its relations with Armenia derivative of its relations with Azerbaijan,"⁵⁸⁹ a country seen as a "strategic pillar" for projection of Turkish influence into the Transcaspian and Central Asia.⁵⁹⁰ The Turkish press and public had been strongly supportive of the Azerbaijani position since 1988, when the conflict first erupted. Initially, official Ankara tried to present itself as an impartial mediator.⁵⁹¹ However, as the fighting continued in

⁵⁸³ Astourian, *From Ter-Petrosian To Kocharian*, 40.

⁵⁸⁴ Ibid., 38.

⁵⁸⁵ Ibid., 24.

⁵⁸⁶ Goldenberg, *Pride of Small Nations: The Caucasus and Post-Soviet Disorder*, 54.

⁵⁸⁷ Astourian, *From Ter-Petrosian To Kocharian*, 27.

⁵⁸⁸ Masih and Krikorian, *Armenia: At the Crossroads*, 101.

⁵⁸⁹ Arman Grigorian, "The EU and the Karabakh Conflict," in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December, 2003), 130.

⁵⁹⁰ Cornell, *Small Nations and Great Powers*, 291. See also Duygu Bazoglu Sezer, "From Hegemony to Pluralism: the Changing Politics of the Black Sea," *SAIS Review*, Vol. 17, No. 1 (1997), 14-16.

⁵⁹¹ Hunter, "The Evolution of the Foreign Policy of the Transcaucasian States," 61.

Azerbaijan and the Nagorno-Karabakh army began defeating the Azerbaijani forces, Ankara adopted an increasingly bellicose stand towards Armenia, thus pushing it into an alliance with Russia.⁵⁹²

In early 1992, thousands of demonstrators took the streets in Turkey calling for “Holy War” against Armenia as an intervention on behalf of Azerbaijan.⁵⁹³ Jones writes that “criticism for standing idle while their ‘Azeri brethren’ were being massacred came from virtually all political directions.”⁵⁹⁴ In May 1992, Turkish President Turgut Özal openly threatened to send the Turkish army into the South Caucasus.⁵⁹⁵ Several dozen Turkish officers were “encouraged” to train the Azerbaijani army, and about fifty thousand troops massed on the Armenian border.⁵⁹⁶ At the same time, the Commander of Turkish Land Forces announced that “all the necessary preparations have been made and that the army was awaiting orders from Ankara to act.”⁵⁹⁷

Bound by the Tashkent Treaty, Moscow was quick to react, with Marshal Evgenii Shaposhnikov, then Commander-in-Chief of the Joint Armed Forces of the CIS, warning that any Turkish military interference into the Nagorno-Karabakh conflict could escalate into World War III.⁵⁹⁸ According to Cornell, Ankara also feared that its involvement in

⁵⁹² Grigorian, “The EU and the Karabakh Conflict,” 130.

⁵⁹³ William Hale, “Turkey, the Black Sea and Transcaucasia,” in *Transcaucasian Boundaries*, ed. John F. N. Wright, Suzanne Goldenberg and Richard Schoefield (New York: St. Martin’s Press, 1996), 62-63. The authors suggest that the protests followed the killings of Azerbaijani civilians escaping from Khojaly village in Karabakh. At the time, Azerbaijani President Mutalibov stated that the Khojaly attack was not a surprise, and that Nagorno-Karabakh forces had left a corridor for the civilians to escape. Mutalibov maintained that the destruction of the escapees was staged by Azerbaijanis themselves to compromise his administration. See “Events in Khojaly (NKR) and near Agdam (Azerbaijan) on February 25-27, 1992,” Office of the Nagorno-Karabakh Republic, Washington DC. Online. Available from http://www.nkrusa.org/nk_conflict/khojaly.shtml (accessed 30 January 2006).

⁵⁹⁴ Scott A. Jones, “Turkish Strategic Interests in the Transcaucasus,” in *Crossroads and Conflict: Security and Foreign Policy in the Caucasus and Central Asia*, ed. Gary Bertsch, Cassidy Craft, Scott A. Jones and Michael Beck (London: Routledge, 2000), 61.

⁵⁹⁵ Zviagelskaya, “Central Asia and Transcaucasia: New Geopolitics,” 140.

⁵⁹⁶ Astourian, *From Ter-Petrosian to Kocharian*, 27; Cornell, *Small Nations and Great Powers*, 294.

⁵⁹⁷ Hale, “Turkey, the Black Sea and Transcaucasia,” 64.

⁵⁹⁸ Aydin, “Regional Security Issues and Conflicts in the Caucasus,” 131; Dmitri Trenin, “Russia’s Security Interests and Policies in the Caucasus Region,” 97.

the Nagorno-Karabakh conflict would result in an arms embargo against Turkey and suspension of U.S. military aid by the Congress at the prompting of Armenian-American lobby.⁵⁹⁹

Faced with a “mounting crisis,” Ankara stepped back, disregarding domestic pressure and appeals from Baku for Turkish military involvement in the Nagorno-Karabakh conflict.⁶⁰⁰ However, the Turkish elite did not become more flexible and Ankara’s policies towards Armenia did not change. According to Astourian, President Özal, shortly before his death in 1993, evidently alluding to the genocide, stated that “Armenia has not learned its lesson from the experience in Anatolia and the punishment inflicted.”⁶⁰¹

The victory of Azerbaijan came to be viewed in Ankara as “the *sine qua non* of a successful regional policy.”⁶⁰² In 1993, as the Nagorno-Karabakh forces advanced, Turkey barred the delivery of humanitarian aid to Armenia through its territory and closed Armenia’s access to transit routes, joining Azerbaijan’s blockade of the country.⁶⁰³ This further undermined the Turkish direction of APNM’s foreign policy. Yerevan’s numerous appeals to Ankara for bilateral ties independent of the Nagorno-Karabakh conflict remained futile.⁶⁰⁴ The blockade also added a new item to Turkey’s Armenian agenda: “the conditions of opening the border.”⁶⁰⁵ Turkish officials have maintained that the border will be opened only after the resolution of the Nagorno-Karabakh conflict on terms acceptable to Azerbaijan.⁶⁰⁶

Armenia’s shortest trade route to the outside world passes through the Turkish corridor to the Mediterranean. By a process of elimination, the blockade aligned Armenia

⁵⁹⁹ Cornell, *Small Nations and Great Powers*, 296-297.

⁶⁰⁰ Hale, “Turkey, the Black Sea and Transcaucasia,” 64.

⁶⁰¹ Astourian, *From Ter-Petrosian to Kocharian*, 31.

⁶⁰² Jones, “Turkish Strategic Interests in the Transcaucasus,” 56.

⁶⁰³ Baku has obstructed the railways and gas pipelines leading to Armenia and Nagorno-Karabakh since 1989. Together with Turkey, Azerbaijan continues the blockade as of this date. Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 6.

⁶⁰⁴ Adalian, “Armenia’s Foreign Policy,” 317.

⁶⁰⁵ Safrastyan, *A Test of Maturity: The Genocide Factor in Armenia’s Foreign Policy*, 4.

⁶⁰⁶ Armen Zakarian, “Armenia Sees No Progress in Talks with Turkey,” *RFE/RL*, 26 July 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 16 January 2006).

on a north-south axis, significantly increasing transportation costs and therefore lessening the country's investment attractiveness.⁶⁰⁷ In 2004, Azerbaijan's leader, Ilham Aliyev, has publicly acknowledged that continued closure of the Armenia-Turkish border is a "huge bargaining chip in Azerbaijan's hand," and its opening would weaken Baku's negotiating position.⁶⁰⁸ Analysts have suggested that over time, Ankara has become hostage to the policies of Baku, which manipulates Turkey's dependence on oil and gas resources.⁶⁰⁹

The development of energy corridors that bypass Armenia (the BTC and BTE pipelines) presented another opportunity for Ankara and Baku to increase Armenia's isolation and weaken it economically to achieve a strategic upper hand in their negotiations with Yerevan. More recently, Turkey announced plans to promote construction of a railroad linking it to Azerbaijan via Georgia, bypassing Armenia. Importantly, this multi-million project is designed as an alternative to the existing Kars-Gyumri-Tbilisi-Baku railway that passes through Armenia. Yerevan has announced that it is "ready to let that railway function without its participation," but Ankara has refused to heed the appeal.⁶¹⁰ Yerevan views this project as yet another attempt to increase Armenia's isolation and force it to unilateral concessions.

Turkey has also stepped up its military cooperation with Azerbaijan. Since 1996, Ankara has been actively involved in the training of Azerbaijan's officers. According to Cornell, Turkey "has basically built the Azerbaijani military."⁶¹¹ Turkey also provides

⁶⁰⁷ Adalian, "Armenia's Foreign Policy," 315. The Armenian-European Policy and Legal Advice Center (AEPLAC), an EU-sponsored think tank, has concluded that reopening the land border between Armenia and Turkey will have little economic effect (\$20 million annually) on Armenia. The World Bank experts provide a different estimate (\$700 million to \$1 billion). See Atom Markarian, "Sahmani Batsumah 'Gretch Vochinch' Chi Ta," (The Opening of the Border "Will Give Nothing") *RFE/RL*, 4 July 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 16 January 2006).

⁶⁰⁸ Ministry of Foreign Affairs of the Republic of Armenia, "Statement by Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia at the Chatham House."

⁶⁰⁹ Masih and Krikorian, *Armenia: At the Crossroads*, 103. See also Stephen F. Larrabee and Ian O. Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, (Santa Monica: RAND, National Security Research Division, 2003), 106-107.

⁶¹⁰ Anna Saghabalian, "Georgian FM Hopes For 'Strategic' Ties with Armenia," *RFE/RL*, 16 January 2006, Online. Available from: <http://www.armenialiberty.org/> (accessed 16 January 2006). "Turqian Miatsial Nahangerih Het Konsultatsianer Eh Antskatsnum Haravayin Kovkasih Hakamartutyunnerih Veraberyal" (Turkey Holds Consultations with the U.S. Over the Conflicts in the South Caucasus). *RFE/RL*, 27 January 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 27 January 2006).

⁶¹¹ "Ognel ev Ognelu en" (They Have Assisted and Will Continue Assisting). *Aravot*, 23 July 2005. Online. Available from <http://www.aravot.am/> (accessed 15 December 2005).

substantial military aid to Azerbaijan. From the Armenian perspective, Turkey's military assistance to Azerbaijan is intended to distort the existing military balance between Baku and Yerevan. Additionally, in all international forums Turkey promotes the "Azerbaijani interpretation of the conflict."⁶¹² Importantly, Turkey's support of Azerbaijan reinforces the unyielding and revisionist attitude of the Azerbaijani leadership towards Karabakh—a situation replete with risks of an escalation that neither Azerbaijanis nor Armenians can afford.

3. Armenian-Azerbaijani Relations: The Nagorno-Karabakh Conflict

Relations between Armenia and Azerbaijan are perhaps the most challenging in the South Caucasus region. The Nagorno-Karabakh problem is the crux of this complex relationship and the cornerstone of "Armenia's foreign policy complications."⁶¹³ The Nagorno-Karabakh conflict has a profound historical and political legacy. It deals with the competing principles of self-determination versus territorial integrity and is often seen as the most complex and unresolved issue in the South Caucasus. A brief analysis of the problem is important to understand the security challenges that lie ahead and the prospects of conflict's resolution.

It is important to note that except during the Soviet period, Nagorno-Karabakh has never been part of Azerbaijan. Azerbaijan's jurisdiction over the Nagorno-Karabakh was an exclusively Soviet creation; it was established in 1921 by the Bolsheviks' Caucasian committee, the Kavburo, under the chairmanship of Joseph Stalin (then Commissar on Nationalities) against the will of the overwhelming majority of the NK population.⁶¹⁴ Two years later, the Soviet authorities drew the borders of the NKAO—a region with a majority Armenian population (about 94 percent), but no link to Armenia.⁶¹⁵ Before this turn of history, in 1920, the League of Nations had refused *de jure* recognition of the Republic of Azerbaijan of 1918-1920. The Nagorno-Karabakh

⁶¹² Cornell, *Small Nations and Great Powers*, 291-292.

⁶¹³ Adalian, "Armenia's Foreign Policy," 326.

⁶¹⁴ de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 129-130. See also Gerard J. Libaridian, ed., *The Karabagh File: Documents and Facts on the Region of Mountainous Karabagh 1918-1988* (Cambridge: The Zoryan Institute, March 1988), 8-119.

⁶¹⁵ de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 130.

was recognized as a disputed territory between Armenia and Azerbaijan.⁶¹⁶ Importantly, with its declaration of independence, Azerbaijan formally established itself as the successor state of the Republic of Azerbaijan of 1918-1920, thus nullifying the legal basis that determined Azerbaijan's authority over Nagorno-Karabakh during the Soviet period.⁶¹⁷

The arbitrary decision of Soviet rulers was never accepted by Armenians, who felt that Nagorno-Karabakh's economic, social and cultural development were being "deliberately sabotaged by Azerbaijani authorities."⁶¹⁸ During the Soviet era, the Nagorno-Karabakh population periodically protested their plight (in 1945, 1966, and 1977).⁶¹⁹ In February 1988, the people of Nagorno-Karabakh officially petitioned the Soviet government to allow their Oblast to decide its own status. Their pleas and peaceful demonstrations were followed by massacres, sanctioned by Azerbaijani authorities, of Armenians in Sumgait and Baku.⁶²⁰ As de Waal writes, the atrocities changed the nature of the Karabakh conflict "from confrontational politics into outright conflict."⁶²¹ In Armenia, "comparison was immediately felt and expressed with massacres of 1915, the Genocide."⁶²²

In December 1991, Nagorno-Karabakh held a referendum in accordance with the USSR law "On the Procedures of Resolution of Problems on the Secession of a Union

⁶¹⁶ Avakian, *Nagorno-Karabakh: Legal Aspects*, 56.

⁶¹⁷ Ibid., 11-13. See also Anatoli Tsiganok, "Karabaghskaya Godovshchina" (Karabagh Anniversary). *Polit.ru*, 18 October 2005. Online. Available from <http://www.polit.ru/author/2005/10/18/karabakh.html> (accessed 16 January 2006).

⁶¹⁸ Mark Malkasian, "*Gha-ra-bagh!*": *The Emergence of the National Democratic Movement in Armenia* (Detroit: Wayne State University Press, 1996), 27-28. Discrimination against Armenians of NK was not an isolated "phenomenon." The anti-Armenian policies in Nakhichevan autonomous republic of Azerbaijan (where Armenians constituted about 40 percent of the population at the time of Sovietization) had by 1990 effectively changed its demographic picture and reduced the Armenian population to one or two percent of the total. In subsequent years the remaining Armenians were completely driven out. See Christopher J. Walker, ed. *Armenia and Karabagh: The Struggle for Unity* (London: Minority Rights Publications, 1991), 64-65; de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 133-139.

⁶¹⁹ Thomas de Waal, "The Nagorny Karabakh Conflict: Origins, Dynamics and Misperceptions," in *The Limits of Leadership: Elites and Societies in the Nagorny Karabakh Peace Process*, ed. Laurence Brauers, Accord Issue 17, 2005.

⁶²⁰ Malkasian, "*Gha-ra-bagh!*," 51-54; Walker, ed. *Armenia and Karabagh: The Struggle for Unity*, 124; de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 35.

⁶²¹ de Waal, "The Nagorny Karabakh Conflict: Origins, Dynamics and Misperceptions."

⁶²² de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 44.

Republic from USSR” and obtained an overwhelming mandate for independence, declaring itself the Republic of Nagorno-Karabakh.⁶²³ Misunderstanding the “depth of the resistance” and the Karabakh Armenians’ commitment to self-determination, the Azerbaijani government decided to solve the conflict in the battlefield.⁶²⁴ An all-out war followed, resulting in a considerable number of casualties and refugees on both sides.⁶²⁵ Armenia assumed the obligation to protect the Armenian population of Karabakh, whose very survival was threatened by Azerbaijan.⁶²⁶ Azerbaijan’s offensive strategy failed, and by 1994, Nagorno-Karabakh forces “took control of certain surrounding territories,” creating a buffer zone to safeguard the population from further Azerbaijani military aggression.⁶²⁷ As Oskanian notes, the purpose was “security and self-determination, not acquisition of territory.”⁶²⁸

Several unsuccessful attempts of mediation were made throughout the war. In 1994, Russia facilitated the signing of an armistice between Armenia, Azerbaijan and Karabakh.⁶²⁹ The ceasefire has held despite the absence of peacekeeping forces in the conflict zone. Over time, the OSCE Minsk Group has emerged as the international mediation efforts’ primary mechanism to resolve the Nagorno-Karabakh conflict. A number of proposals have been presented by the Group’s Russian, U.S. and French co-chairs as a framework for negotiations. It has been reported that the most recent phase of

⁶²³ de Waal, *Black Garden*. Under this law autonomous units had the right to conduct referenda to determine whether they want to stay in the USSR or in the seceding (read: Azerbaijan) republic.

⁶²⁴ Adalian, “Armenia’s Foreign Policy,” 326.

⁶²⁵ Ministry of Foreign Affairs of the Republic of Armenia, “Statement by Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia at the Chatham House.” See also de Waal, “The Nagorny Karabakh Conflict: Origins, Dynamics and Misperceptions.”

⁶²⁶ Adalian, “Armenia’s Foreign Policy,” 313.

⁶²⁷ Vartan Oskanian, “Old States and New: Shifting Paradigms and the Complex Road to Peace in Nagorny Karabakh,” in *The Limits of Leadership: Elites and Societies in the Nagorny Karabakh Peace Process*, ed. Laurence Brauers, Accord Issue 17, 2005. Online. Available from <http://www.c-r.org/accord/nk/accord17/> (accessed 30 January 2006). Various authors have followed the lead of Azerbaijani authorities, who repeatedly misrepresented the statistics on the number of refugees and the size of NK-controlled territories. See, for example, Goldenberg, *Pride of Small Nations*, 54; Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 3; Arif Yunusov, “Azerbaijani Security Problems and Policies,” in *The South Caucasus: A Challenge for the EU*, ed. Dov Lynch, European Union Institute for Security Studies, Chaillot Papers, No. 65 (December 2003), 143. The real figures “are a long way short” of those reported. See de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 285-286.

⁶²⁸ Oskanian, “Old States and New.”

⁶²⁹ Nichol, *CRS Issue Brief for Congress: Armenia, Azerbaijan, and Georgia*, 3.

negotiations centers on a “hybrid peace plan” in which the most of the security zone around Nagorno-Karabakh would be returned prior to a referendum in Karabakh on its status.⁶³⁰

During 2005, the co-chairs of the Minsk Group reported some progress in settling the conflict. The mediators foresaw “highly favorable” conditions for resolving the Nagorno-Karabakh conflict in 2006, emphasizing that because it is not an electoral year for either Armenia or Azerbaijan, it will be easier for each country’s leaders to reach unpopular compromise agreements. According to the mediators, failure to use this “golden opportunity” would mean several more years of deadlock.⁶³¹ In February 2006, the Armenian and Azerbaijani presidents met for the scheduled “crucial talks” at Rambouillet Chateau, France, but the two sides did not register any progress.⁶³²

It has been suggested that the Azerbaijani leader has rejected the idea of allowing the Nagorno-Karabakh region to decide its status in a referendum.⁶³³ Following the Rambouillet talks, in an interview with Turkish NTV television, Aliiev stated that Azerbaijan would “never agree to Karabakh’s secession from Azerbaijan” and that he expects to reach better results “after waiting for a while.”⁶³⁴ Armenia’s Foreign Minister articulated Yerevan’s position that in the Rambouillet peace talks they agreed to the “utmost line beyond which Armenia really cannot go.”⁶³⁵ The Armenian side proclaimed

⁶³⁰ Nichol, *CRS Issue Brief for Congress*, 4. Media reports speculate that the referendum will take place 10 to 15 years after the start of NK troop withdrawal from the buffer zone. Given NK’s majority Armenian population, the outcome of such a referendum would almost certainly be an overwhelming vote for the independence of NK or its unification with Armenia. See Emil Danielyan, “Tough-Talking Aliiev Threatens Renewed War with Armenia,” *RFE/RL*, 01 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 01 March 2006).

⁶³¹ Emil Danielyan and Anna Saghabalian, “Mediators See ‘Golden Opportunity’ of Karabakh Peace,” *RFE/RL*, 15 December 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 15 December 2005).

⁶³² Emil Danielyan, “Kocharian Hopes for Karabakh Deal, Shrugs Off Azeri Oil Factor,” *RFE/RL*, 02 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 02 March 2006).

⁶³³ Emil Danielyan, “Armenia, Azerbaijan Still ‘Very Close’ to Karabakh Deal,” *RFE/RL*, 7 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 07 March 2006).

⁶³⁴ Danielyan, “Tough-Talking Aliiev Threatens Renewed War with Armenia.”

⁶³⁵ Emil Danielyan, “Oskanian Says Azerbaijan Holds Key to Karabakh Peace,” *RFE/RL*, 13 March 2006, Online. Available from <http://www.armenialiberty.org/> (accessed 13 March 2006).

the following to be the main premises of a peace policy: a horizontal relationship between Nagorno-Karabakh and Azerbaijan, a secure geographic link with Armenia, and security guarantees for the people of Karabakh.⁶³⁶

In 2005, Aliev announced plans to use proceeds from Azerbaijan's increasing oil exports to double their military expenditures for 2006 and to continue increases to match Armenia's total budget.⁶³⁷ In March 2006, following the Rambouillet peace talks, he stated that Azerbaijan "must get ready and the population must be mobilized."⁶³⁸ The pro-war rhetoric is growing among politicians and media in Azerbaijan. The announcements of intent to wipe out Armenia are often made at the top levels of Azerbaijani political circles.⁶³⁹ Recently, one of the Azerbaijani major political parties, the National-Democratic party, bestowed the "Man of the Year" award for protecting state and national interests on Ramil Safarov. Safarov is an Azerbaijani officer who in 2004, during a NATO Partnership for Peace program in Hungary, murdered an Armenian officer, Gurgen Margarian, in his sleep, with an axe.⁶⁴⁰ Analysts note that hate narratives, ethnic intolerance and war-mongering statements only exacerbate Armenians' threat perceptions, undermine confidence and reduce the "capacity for compromise."⁶⁴¹

Waltz has suggested that states will strive to compensate for external disequilibrium and will be induced to play the balance of power game, mobilizing available external and internal means (intensifying their economic and military buildup). Indeed, there are signs of intensification of the arms race between Armenia and Azerbaijan. In response to Azerbaijan's increasing military expenditures, Armenia has

⁶³⁶ Oskanian, "Old States and New."

⁶³⁷ "Aliev Pledges to Double Azeri Military Budget in 2006," *RFE/RL*, 8 September 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 08 September 2005).

⁶³⁸ Danielyan, "Tough-Talking Aliev Threatens Renewed War with Armenia."

⁶³⁹ Ministry of Foreign Affairs of the Republic of Armenia, *Sumgait: After 18 Years*. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 01 March 2006).

⁶⁴⁰ "Ramil Safarov Has Been Proclaimed "Man of the Year" in Azerbaijan," *PanArmenian Network*, 17 February 2006. Online. Available from <http://www.panarmenian.net/> (accessed 20 February 2006).

⁶⁴¹ National Intelligence Council, *Resolving Conflicts in the Caucasus and Moldova: Perspectives on Next Steps*, Conference Report, September 2002. 22. Online. http://cia.gov/nic/confreports_resolveconflict.html (accessed 20 February 2006).

boosted its military spending for 2006 by about 20 percent.⁶⁴² Although the increase was not as pronounced as that of Azerbaijan's, the Armenian leadership has maintained that it is enough to assure the balance between forces.⁶⁴³ They suggest that Azerbaijan's increased military budget will not translate to a military superiority anytime soon. Armenia's Minister of Defense, Serzh Sarkisyan, announced that in 2005 Armenia managed a considerable replenishment of its armaments and purchased almost as much ammunition as it had acquired in the previous ten years.⁶⁴⁴ Importantly, the CSTO framework serves as a major source for Armenia's acquisition of Russian weaponry at discounted prices.

Observers note that although long-term economic and demographic trends favor Azerbaijan, those advantages "may not be a deciding factor."⁶⁴⁵ Fifteen years have passed since Nagorno-Karabakh's declaration of independence and Nagorno-Karabakh has materialized as a viable state. The reality is that this unrecognized republic has built all the attributes of statehood (a new parliament, several registered political parties, and state ministries) and has proven its ability to govern and protect its people, hold democratic elections, and conduct foreign relations.⁶⁴⁶ Over time, the Nagorno-Karabakh army has constructed formidable front line defenses and has managed heavy militarization along the border. Observers maintain that control over the buffer zone gives substantial strength to Nagorno-Karabakh forces.⁶⁴⁷ They note that the Nagorno-Karabakh population has "concluded on the basis of their troubled history that they cannot safely reside in territory controlled by Azerbaijan . . . [and therefore] they are prepared to sustain high levels of suffering."⁶⁴⁸ As Oskanian writes,

⁶⁴² Atom Markarian, "Armenia Plans Increase in Military Spending to Stay in Race with Azerbaijan," *RFE/RL*, 18 October 2005, Online. Available from <http://www.armenialiberty.org/> (accessed 18 October 2005).

⁶⁴³ Aris Ghazinyan, "Fit for a Fight?: Armenia and Azerbaijan Flex Military Muscles, Vow to Not Be Overcome," *ArmeniaNow*, 21 October 2005. Issue 40, No. 162. Online. Available from <http://www.armenianow.com/> (accessed 20 February 2006).

⁶⁴⁴ "Mir Dorogo Stoit" (Peace is Expensive). *Golos Armenii*. 24 January 2006. Online. Available from <http://www.golos.am> (accessed 20 February 2006).

⁶⁴⁵ National Intelligence Council, *Resolving Conflicts in the Caucasus and Moldova*.

⁶⁴⁶ Oskanian, "Old States and New."

⁶⁴⁷ National Intelligence Council, *Resolving Conflicts in the Caucasus and Moldova*.

⁶⁴⁸ Ibid.

[T]he Azerbaijani authorities want to believe that if they do not realize their maximum demands through negotiations, they can always resort to military solutions. But is it not obvious that a conclusive military resolution is not possible? A successful military solution would require more than conventional arms against the people of Nagorny Karabakh, who are defending their own homes. Azerbaijan can succeed in its attempts only by ethnically cleansing Nagorny Karabakh of all Armenians.⁶⁴⁹

Analysts maintain that “Azerbaijan’s relative economic strength is also its vulnerability . . . [because a new war will] interfere with petroleum transport, undermine regional investment and compromise Azerbaijan’s economic momentum.”⁶⁵⁰ The resumption of military activities will result in greater human suffering and material destruction, as it is unlikely that the new war “will remain as limited as the previous one.”⁶⁵¹ Not only will it be fought with more sophisticated and deadly weaponry, but, according to de Waal, in “a nightmarish scenario,” Russia and Turkey would be drawn into a major regional confrontation through their alignments.⁶⁵² It is clear that such scenarios are not in the best interest of any party.

The two major regional players involved in the peace talks, Russia and the United States, support a peaceful resolution of the conflict, since the alternative scenario would most likely jeopardize their regional interests.⁶⁵³ Both countries have repeatedly stated that they will support any peace plan acceptable to both Armenians and Azerbaijanis. At the same time, they emphasize that neither side should expect to achieve 100 percent of what it wants.⁶⁵⁴ Clearly, peaceful resolution of the conflict will require significant concessions from both parties, but, as de Waal notes, the peace deal has to respect the “force of will . . . that led to secession.”⁶⁵⁵ From the Armenian perspective, the basis of

⁶⁴⁹ Oskanian, “Old States and New.”

⁶⁵⁰ National Intelligence Council, *Resolving Conflicts in the Caucasus and Moldova*.

⁶⁵¹ Cornell et al, *The South Caucasus: A Regional Overview and Conflict Assessment*, 66.

⁶⁵² de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 279.

⁶⁵³ “War Will Only Bring New Suffering, Steven Mann Assures,” *Azg Armenian Daily*, No. 046. 15 March 2006. Online. Available from <http://www.azg.am/> (accessed 15 March 2006).

⁶⁵⁴ Ibid. See also “Rossiya Predlagaet Pomoshch V Uregulirovani Karabakhskogo Konflikta” (Russia Offers Assistance in Solving Karabakh Conflict). *Polit.ru*, 19 February 2006. Online. Available from www.polit.ru (accessed 19 February 2006).

⁶⁵⁵ de Waal, *Black Garden: Armenia and Azerbaijan through Peace and War*, 281.

the peace deal “is the affirmation of the right of the people of Nagorny Karabakh to self-determination and international recognition of that right.”⁶⁵⁶ The remainder of this chapter considers how Armenia’s contentious relations with Azerbaijan and Turkey have complicated its relations with Russia and the United States and shaped its foreign policy.

B. ARMENIA’S FOREIGN POLICY OF COMPLEMENTARITY AND ITS THEORETICAL EXPLANATIONS

From the very start, Armenia’s leadership sought to avoid entangling the country in alliances and strived to make Armenia self-reliant in regards to its security needs. The leadership maintained that Armenia had for too long relied for solutions to its security problems on an outside power, be it Russia or the West.⁶⁵⁷ Armenian leaders wanted to maintain “security, political and economic balance in [their] relationship with the world powers.”⁶⁵⁸ Their priority was to develop active bilateral ties “with as many countries as feasible” and to participate in different international organizations to facilitate Armenia’s integration into international system.⁶⁵⁹

Due to the interdependent links of the Soviet economy and Armenia’s dependence on Russian energy resources, Armenia had to keep its ties with Russia, but that relationship also had to be complemented by Armenia’s close relations with the United States and the European countries. The principle of multidirectional complementarity, based on open, equal dialogue and cooperation with all parties, has become the cornerstone of modern-day Armenia’s foreign policy. The policy is intended to reduce polarization in the region and is seen as the best guarantee of Armenia’s national security. The policy of complementarity prioritizes normalization of relations with all of Armenia’s neighbors, including Turkey.

After fifteen years of independence, Armenia has succeeded in normalizing relations with all its neighbors and non-neighboring regional players except for Turkey and Azerbaijan. Armenia has pursued close military and security ties with Russia and has

⁶⁵⁶ Oskanian, “Old States and New.”

⁶⁵⁷ Astourian, *From Ter-Petrosian To Kocharian*, 17.

⁶⁵⁸ Rouben Shugarian, Deputy Minister of Foreign Affairs of the Republic of Armenia, “Globalization in the Context of Armenia’s Foreign Policy,” Armenia on the Way to Europe International Conference, Yerevan, Armenia, October 21-22, 2003. Online. Available from <http://www.armeniaforeignministry.com/> (accessed 15 December 2005).

⁶⁵⁹ Adalian, “Armenia’s Foreign Policy,” 312.

recently deepened bilateral cooperation in the energy field. Throughout much of the 1990s, the policy of complementarity was mostly asymmetric, involving “military and security ties with Russia on the one hand, economic assistance programs and democracy-building with the U.S. on the other.”⁶⁶⁰

As the U.S. involvement in the region increased and Washington boosted its security cooperation with regional countries, Armenia sought to balance its security dependence on Moscow with its expanding relations with Washington. Armenia entered into layers of security arrangements. Armenian-Russian bilateral military and security cooperation and Armenia’s membership within the CSTO have been complemented by bilateral security ties to the United States and extensive relations with NATO. Yerevan has also pursued closer relations with Tehran in the areas of energy, trade and transportation.

Both neorealist and neoliberal theories—discussed in chapter II—are helpful in explaining Armenia’s foreign policy behavior. The analysis of security interdependencies, based on Buzan’s framework of regional security subsystems, demonstrates that within the South Caucasian security complex, Armenia’s close ties to Russia can be explained mainly by Armenia’s desire to balance against perceived threats from Turkey. Ankara’s support of Azerbaijan in the Nagorno-Karabakh conflict, its desire to coerce, isolate and weaken Armenia and its continuous denial of the Armenian Genocide all contribute to Armenia’s perception of Turkey as its chief security threat. According to Armenia’s Foreign Minister Oskanian, Turkey’s “continuing insistence on preconditions to normal relations creates a breach in confidence . . . [t]he absence of normal relations creates a fear of unexpected actions and complicates an already tense security environment.”⁶⁶¹

The perceived security threat emanating from Turkey is the product of Walt’s four sources of threats. Walt has suggested that small states are more likely to balance against the most threatening power if balancing alliances are available and viable. The Turko-centrism of U.S. policy, along with Washington’s geopolitical and geo-strategic interests

⁶⁶⁰ Shugarian, “Globalization in the Context of Armenia’s Foreign Policy.”

⁶⁶¹ Ministry of Foreign Affairs of the Republic of Armenia, “Statement by Vartan Oskanian, Minister of Foreign Affairs of the Republic of Armenia at the Chatham House.”

in Azerbaijan, have made Armenia's leadership hesitant to rely solely on the U.S. to safeguard Armenia's security. Despite its obvious interest in normalizing Armenian-Turkish relations, the United States, according to Oskanian, has shown an "inability to bend its junior partner's, Turkey's policies towards greater cooperation with Armenia."⁶⁶² As Oskanian notes, this is primarily because

Turkey's role in Iraq, with Israel, between NATO and EU defense policy, not to say anything of the Baku-Ceyhan pipeline, are all too critical to risk jeopardizing by pushing a positive Turkish-Armenian agenda in the face of Turkish resistance.⁶⁶³

In contrast, Russia, for its own security reasons, is both interested and willing to check Turkey's influence in the South Caucasus. Russia is also Armenia's traditional ally in the region. The convergence of Armenian and Russian threat perceptions led them to cement an alliance to balance against expanding Turkish influence. What Walt describes as secondary determinants of alignment, such as shared cultural and religious factors, further enhanced the effectiveness of the Armenian-Russian alliance against Turkey.

A balancing alliance could create divisive lines in the region, whereby Armenian-Turkish and Armenian-Azerbaijani relations would be tied to the broader Russian-American regional competition—with potentially disastrous consequences for Armenia. This scenario, however, has never materialized for two main reasons: Armenia's pursuit of complementarity and its efforts to conflate U.S.-Russian interests; and evolving U.S.-Russian security cooperation.

Armenia recognizes the importance of close ties with the United States to complement Armenian-Russian security cooperation and strengthen Armenia's economic and political institutions. The U.S.-Armenian cooperation in these areas significantly improves Armenia's security and its economic and political situation, correspondingly diminishing its dependence on Moscow. Moreover, close cooperation with the United States brings Armenia closer to its goal of European integration. Armenia has also been enthused about cooperating with the U.S. in areas of interest to Washington, such as anti-terrorism, peacekeeping, NATO activities, and domestic political and economic reforms.

⁶⁶² Ministry of Foreign Affairs of the Republic of Armenia, "Speech by Vartan Oskanian Minister of Foreign Affairs Republic of Armenia to the Yale Conference on The Caucasus and Central Asia."

⁶⁶³ Ibid.

Through such cooperation Armenia has managed to build a “proportionate and diversified relationship” with the United States and Russia, erasing former asymmetries in its relations with both powers.⁶⁶⁴ In turn, this has helped to prevent polarization in the region. In this sense, Armenia’s increasing bilateral relations with the U.S. have weakened the opposing Turkish-Azerbaijani alliance. Therefore, to some extent, this policy can be seen as an external balancing strategy along the lines of Waltz’s balance of power theory.

The U.S.-Russian cooperation also helps to prevent creation of regional dividing lines. Analysts maintain that the “Great Game” metaphor has become an anachronism.⁶⁶⁵ There is significant cooperation and compatibility between U.S. and Russian interests in the region. For instance, the U.S. presence in Georgia and Central Asia arguably serves Russia’s own short-term interests in countering terrorism. There is also considerable regional competition between the two powers. Importantly, the nature and the quality of that competition are visibly different from the Cold War rivalry. Issue-linkages and multiple interactions have produced a very sophisticated pattern of cooperation and competition between Washington and Moscow, and in many areas the framework of U.S.-Russian bilateral relations has developed into a non zero-sum game. It seems, though, that sustainable progress in U.S.-Russian cooperation will depend greatly on Russia’s progress towards democracy. Undoubtedly, coordination of U.S.-Russian policies can lead to regional stability and conflict resolution—a Great Gain scenario not only for Armenia, but for the region as well.

Keohane and Nye argue that asymmetrical dependence is the major source of power in an interdependent world. Moscow has a history of exploiting asymmetrical interdependencies to exert political influence over the CIS countries. Armenia seems both sensitive and vulnerable to Russia’s energy imports. Continuous expansion of Russian corporate energy interests into key energy sectors of Armenia has made the latter more dependent on Moscow. Such dependent relations provide Russia with potential leverage over Armenia’s internal political and foreign policy developments.

⁶⁶⁴ Shugarian, “Globalization in the Context of Armenia’s Foreign Policy.”

⁶⁶⁵ National Intelligence Council, *Resolving Conflicts in the Caucasus and Moldova*; Winrow, “A New Great Game in the Transcaucasus?” 46.

Armenia has sought to decrease the vulnerability dimension of this interdependence and has deepened its energy relations with Iran to complement Russian-Armenian energy cooperation. The Iranian-Armenian pipeline, projected to bring Iranian gas to Armenia in 2007, is an important part of this strategy and will serve to significantly bolster Armenia's energy security.

C. LOOKING TO THE FUTURE

The dynamics of American-Russian relations and global geopolitical trends will continue to impact Armenia's course of complementarity in foreign policy. As Russia reasserts itself in the face of a broadening U.S. involvement in the Southern Caucasus, the region may well emerge as an arena of great power competition and confrontation between Moscow and Washington. Armenia then may find itself in the unpleasant position of having to choose sides. Armenia's subsequent decision would likely depend on each side's ability to fulfill the state's vital security interests—protection of Armenia's sovereignty and security, peaceful resolution of the Nagorno-Karabakh conflict, and creation of a favorable security environment in the region.

From the Armenian perspective, Turkey's credibility as a positive regional player has diminished significantly because of Ankara's regional policies. Confidence-building measures between the two countries, such as establishing unconditional diplomatic relations, opening the border and improving trade relations, would ease Armenians' feelings of insecurity. A more balanced engagement by Turkey in the South Caucasus might help produce a peaceful resolution to the Nagorno-Karabakh conflict.

These changes would open up avenues for cooperation between Armenia and Turkey and among the three South-Caucasian countries, helping to change their common understanding of the region's future. The EU might serve as an ideal interlocutor, as it is already involved in monitoring Turkey's compliance with EU norms. Given EU standards and ideals, it is logical to expect that as a condition of membership in the EU, Turkey will be expected to revisit and normalize its relations with Armenia. Until such a time, Armenia is likely to continue its policy of multidirectional complementarity.

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